

**MONITORING THE MANAGEMENT
OF MUNICIPAL HOUSING**

**A Handbook for Municipal Governments
in Slovakia**

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ABSTRACT

One crucial problem facing municipal governments in Slovakia today is the disposition of the residential rental property that the cities and towns have inherited from the national government. This housing is plagued by extensive problems of deferred maintenance, ineffective management, inefficient use of services, and poor physical design.

This handbook is intended for use by municipal officials who are responsible for the operation of public rental housing in Slovakia. It describes the role of the municipality as a housing owner and distinguishes between the municipality's role and that of the housing management company. The handbook explains how an active monitoring strategy can be implemented to improve management services and reduce the inefficiencies that exist in current housing management practices.

INTRODUCTION

BACKGROUND

For the past several years municipalities have been struggling with many problems of city administration and governance that had previously been the responsibility of national authorities. Wastewater management, road construction, taxation, and real estate development are just a few of the new areas over which municipal governments have been forced to extend their jurisdiction. This situation has led to many challenges for local governments, with city administrations being forced to develop expertise in a variety of previously unfamiliar domains.

One of the biggest responsibilities for municipal governments is managing the extensive system of public rental housing put in place during the past four decades of socialist rule. Under the former system, rental housing was run by state management entities who had little incentive to operate efficiently or to provide good services to the tenants. As a result, in spite of large operating subsidies provided by the government, the repair needs of the buildings were often unmet and the level of tenant satisfaction with management services was low.

Municipalities inherited most of the nation's public housing, with all its accumulated problems, shortly after the Velvet Revolution in 1991. As the new owners of this segment of the housing stock, municipalities became responsible for its management and operation, a job for which they were ill-prepared. The fact that rent revenues were still controlled by national law made the task even more difficult, as municipalities could not increase rents to a level that would be adequate to address deferred maintenance needs and to maintain the buildings at an adequate level. Consequently, most municipal governments had to choose between providing operating and repair subsidies or allowing the buildings to decay from lack of sufficient maintenance (a form of capital consumption).

Most of these problems facing municipal rental housing still exist today. One way for municipal governments to relieve themselves of this burden is to sell municipally-owned rental property to private owners. This process is already underway. Even with its best efforts, however, municipalities will most likely not be able to privatize all of their housing. Some people may not be able to afford to purchase their apartments; others may not wish to become housing owners. Most municipalities seem to feel the need to retain a certain amount of "social housing" for persons who cannot afford to buy or rent housing on the open market, or for persons with economic, social, or physical problems. Furthermore, the process of privatization is likely to take some time to complete.

It is clear, then, that municipal governments will be in the business of operating rental housing for the foreseeable future. To make the best use of the limited resources now available for housing, municipalities must continually search for better and more efficient means to organize the management of public housing.

THE PURPOSE OF THIS HANDBOOK

This handbook was designed to help municipal governments to carry out their responsibilities as housing owners. It is intended to be used by persons in the municipal government who are directly responsible for the operation and disposition of public housing, such as the staff of the municipal Housing Office or the Deputy Mayor responsible for housing.

Most municipal governments have taken a "hands off" approach to housing management—they rely on one or more management enterprises to operate the housing for them and they make only minimal efforts to monitor or regulate the activities of the housing managers. Provided that total expenditures on maintenance and utilities do not exceed total receipts from the tenants, most municipalities appear to be satisfied that their housing is being managed properly.

The problem with this approach is that it leaves decisions regarding the management of the property entirely up to the housing manager. While the housing manager may be a knowledgeable and competent professional, he should not make decisions that affect the future of the property. The property belongs to the owner, and it is only the owner who can decide what level of management and maintenance services should be provided. Of course, the owner will need to rely on the expertise and experience of the housing manager to help make these decisions.

This handbook proposes an approach to managing municipal housing that is different from that found in most municipalities today. In the chapters

that follow, the handbook describes how the municipality can take a more active role in setting standards for management performance and in ensuring that the housing managers meet those standards. Such a system recognizes the inherently different interests of the owners and managers of residential property.

The owner's interests will depend on his overall goals as a property owner. For example, his goal might be maximizing the return on his investment. Or his goal might be to provide decent housing for people at the lowest possible cost. A private housing manager's interests are generally to maximize the profit of his business and to maintain a desired level of performance in the properties that he manages.

Because the owner's and manager's interests differ, their duties and responsibilities toward each other must differ as well. The owner is responsible for making decisions regarding both the long-term and short-term use of the property and for defining precisely the tasks of the housing manager in accordance with these goals. The housing manager is responsible for providing a level of management services that meets the standards set by the owner and for giving the owner accurate and timely information regarding the property. It is important that both parties understand their respective roles if their relationship is to be productive and mutually beneficial.

In Chapter I, the handbook discusses thoroughly the respective roles of the property owner, manager, and tenant. Chapter I describes the responsibilities and rights of each group, along with their relationships to each other. Chapter II describes in more detail the municipality's role and responsibilities as a housing owner. These responsibilities include preparing budgets, planning for long-term and short-term maintenance needs of the properties, and monitoring the performance of the housing manager. Chapter III explains various methods that the municipality can use to monitor the performance of the housing manager—from examining reports from provided by the housing manager to inspecting the properties. Finally, Chapter IV discusses how the municipality can create an environment where there are incentives for the housing management companies to improve the quality and efficiency of the services that they provide. ¹

¹This handbook deals primarily with the role of the municipality as the housing owner. The role of the housing manager is dealt with in a companion handbook, entitled "The Essentials of Property Management: A Handbook for Housing Management Companies."

I.

RELATIONSHIPS AMONG OWNERS, MANAGERS, AND TENANTS

The provision of housing involves a careful balance between the interests of the property owners, the housing managers, and the tenants. Each group has its own concerns, which may sometimes agree with those of the other groups, and sometimes conflict with them. In order for the relationships among the three groups to be successful and beneficial, each group must understand the roles of the others. Relationships must be constructed that take into account the differing interests of all parties.

This chapter describes the roles of the three participants in the provision of housing —owners, managers, and tenants —and describes the contractual relationships among them.

THE PARTICIPANTS AND THEIR ROLES

The Property Owner

Housing is a commodity that should be viewed as an **asset**, that is, something that has a tangible value. Blocks of flats are built to last over the long term and generally will increase in value over time as land prices and the cost to build new housing increases. In the West, real estate is seen as a valuable asset, one that is worthy of investment. Generally, the primary long-term economic benefit from real estate ownership comes from the appreciation of land values due to growth in population and rising incomes. In addition, since people will always need shelter (and are willing to pay for it), the property can also be a significant source of income for the owner.

An important goal for most private owners of real estate is to maximize the value of the assets that they own. Economists define the present value

of an asset as the discounted ² value of the net income produced by the asset over its useful life, plus the discounted value of the salvage value of the asset at the end of its useful life. (The useful life of an asset ends when its operating cost exceeds revenue.) Depending on the circumstances, the owner must take different actions to protect the value of his property. For instance, the owner may need to put in place maintenance practices to keep the property in good condition, invest in rehabilitating or upgrading the property, sell the property, or even forgo maintenance and allow the property to deteriorate.

As an owner of residential property, a municipal government shares the interest of private owners in preserving the value of its assets. Nevertheless, the municipality's primary goal as an operator of public housing is to provide decent, safe, clean, affordable housing for its citizens. In some situations, this goal may be in conflict with the goal of maximizing the value of the housing.

For instance, it would enhance the value of the municipality's property to lease apartments for the highest possible rents, but this would be contrary to the goal of providing affordable housing to those who need it. Also, a municipality cannot simply allow a building to deteriorate, even if the property is uneconomical to operate, unless it can provide alternative housing for the residents of that building. Therefore, the municipal government should seek to maximize the value of its residential property within the constraints of its mission to serve the public good. Often this will mean increasing the efficiency of the management and maintenance practices of the organizations that operate the property so that the best use is made of limited public resources devoted to housing.

The Housing Office

The functions of maximizing the value and ensuring the quality of the housing and its operation are commonly known as **asset management**. Asset management may be the responsibility of the owner himself or, if the owner is a corporation or municipality that has a large real estate portfolio, a specific individual or group of people might be assigned these responsibilities by the owner. In many larger municipalities, a **Housing Office** assumes the responsibilities of the asset manager with respect to the public housing stock.

The Housing Office should be involved in both long-term and short-term planning for the buildings. It should not only ensure that the day-to-day operations are carried out well, but that plans are made to address

²To determine the present value of an asset, a *discount rate* is applied to convert the income stream generated by the asset to its present-day value. For example, with an annual discount rate of 15 percent, 100 Sk received one year from today would have a present value of only 87 Sk (100 Sk divided by 1.15).

deferred maintenance and capital repairs and improvement. The Housing Office must not only assess the property's physical needs but its financial needs as well (i.e., it should plan how repairs and renovations will be financed). To perform these tasks more effectively, it is desirable for the staff of the Housing Office to have some background in accounting, or at least an affinity for it, as well as some experience in building systems, construction, and maintenance.

Ownership of property involves not only financial benefits but certain risks as well. The Housing Office should therefore attempt to reduce these risks to protect the municipality from any financial liabilities. The Housing Office must ensure that the health and safety of tenants and people who work in the property are protected and that all relevant building regulations are followed. In addition, any relevant or legally required property insurance must be obtained and kept up-to-date.

The Housing Manager

An owner can assume the responsibility for the day-to-day operations of the property himself, or he may choose to contract out this responsibility to a firm, commonly called a **property management** or **housing management** firm. The owner of a small number of buildings may find that he can effectively manage the property without outside help. If, however, the owner has many buildings, as in the case of a municipal government, he may wish to contract out the responsibility to one or more management firms.

If the owner has a sufficiently large number of buildings then it is usually desirable to hire several housing management firms to manage different parts of the housing stock. This creates an atmosphere of competition among the different management companies, which should provide incentive for improved performance. Further, it makes it easier for the owner to replace a management company if the performance of that company is seriously deficient. In addition, hiring several management companies will help stimulate the creation of a market for management services, which is of general benefit to the municipality.

While the general function of the housing manager is to carry out the day-to-day operations of the housing, this function can cover a wide variety of tasks. The housing manager's role and responsibilities can vary widely depending on the level of service that the owner desires. The manager can take a very minimal role —paying bills, collecting rents, and contracting for major repairs of the buildings —or can be involved in maintenance planning, selecting new tenants, cleaning the common areas in the building, and maintaining the interior of the units.

In the U.S., for instance, management companies are usually responsible not only for maintaining the buildings' major physical systems, but also

for cleaning the public spaces and making needed repairs inside the apartments. In Slovakia, however, management companies are often only responsible for repairing major building systems.

It is necessary, therefore, that the owner precisely define the duties of the housing manager. The primary document that describes the manager's responsibilities is the **management contract**, which is the legal basis for the relationship between the manager and the owner. To supplement the management contract, the owner usually lays out the manager's duties in detail in a document called the **management criteria**. The management criteria define clearly the responsibilities of the housing manager and provides a basis for judging the quality of the housing manager's performance.

Usually, the housing manager is responsible for maintaining a safe and comfortable living environment for the tenants. This may include making certain that the common areas (such as elevators, stairwells, and hallways) are kept clean; that garbage is removed; that insects and other vermin are kept to a minimum; and that the building grounds are maintained in a clean, neat, and safe state. The housing manager must also provide for resident security by maintaining locks, doors, and if applicable, entry systems such as intercoms.

In addition, it is the housing manager's responsibility to ensure that the buildings' systems are in working condition: heating, hot and cold water, gas, electricity, air ventilation, and elevator. The housing manager must not only ensure that necessary repairs are made promptly, but should also perform preventive inspections and maintenance to prevent breakdowns from occurring in the first place.

To ensure the fiscal well-being of the building, the housing manager must carry out financial management tasks as well. These include rent collection and accounting for all sources of revenue, payment of bills and accounting for all expenses incurred on behalf of the property (both directly and indirectly), budget preparation and implementation, and cash and cost management. The housing manager is also responsible for ensuring that tenants pay their rent and that appropriate measures are taken to keep nonpayment as low as possible.

Another responsibility of the housing manager is to keep accurate records on the properties and to provide any reports or information required by the owner or Housing Office. This includes keeping organized records for each building, apartment, and tenant, including tenant leases, rent payment records, and maintenance records, as well as any legally required accounting records for the properties. The housing manager should provide regular reports on the financial condition, occupancy status, and maintenance activities for the properties to the owner.

Finally, the housing manager should encourage tenant participation in the maintenance of the building and try to ensure tenant satisfaction to the greatest extent possible.

The Tenant

The owner's responsibilities toward the tenant are to provide heat, electricity, and other services paid for by the tenant, to respond in a timely manner to the tenant's complaints, to keep the building and surrounding property in a safe, clean, and well-maintained condition, and to follow all other provisions provided by law and by the agreement with the tenant. As was discussed already, an owner of multiple properties usually delegates these responsibilities to a professional housing manager. Nevertheless, this does not relieve the owner from the obligation of ensuring that these responsibilities are in fact being met.

Tenants should be viewed as the clients of both the property owners and the property managers. Providing quality services to the tenants should be the top priority of housing management. In privately-owned housing, if the level of management services is not satisfactory then good tenants will not be willing to stay and will move elsewhere. This will increase the amount of time that apartments are vacant and reduce the revenues of the building. It will also make the manager spend more time looking for new tenants than he would otherwise.

Even in public housing, which normally serves people who have fewer housing alternatives, the municipality and the management companies should respond to the needs and wishes of the tenants as much as possible. If the tenants believe that the owner and the housing manager do not care about their needs, then they will not be likely to care about the property or about paying their rent on time. If the tenants feel that they are being treated fairly and that there is a sense of partnership with the owner and the housing manager, then they will be more willing to do their part to keep the property in good condition.

The housing manager and the owner should provide opportunities for the tenants to express their opinions about how the housing is being run. Tenant meetings are one way to do this, as is providing a suggestion box for tenant comments or complaints. The housing manager should also try to interact with the tenants on a casual basis, so that they will feel more comfortable bringing their problems to her. Another, more formal, method is to do regular surveys of the tenants and ask them if they are satisfied with specific aspects of the management of the property. If these surveys are conducted in the same manner each time, they provide a means of measuring whether tenant satisfaction is increasing or decreasing over time.

What, then, are the responsibilities of the tenant? In general, a tenant's responsibilities are to pay his rent, utility, and other service charges in full and on time; to keep the apartment in good condition and not cause damage to the property; to refrain from activities that would cause danger or annoyance to other tenants; and to adhere to the conditions provided by the law and by the rental agreement with the owner. As a condition of living in subsidized public housing, a municipality may also wish to impose income or other screening requirements, such as turning down applications from people who have a history of destruction of property, poor rent-paying habits, or a violent criminal record. Or, the municipality may want to reserve certain units for persons with disabilities, the elderly, families with children, or other protected groups.

CONTRACTUAL RELATIONSHIPS

The Management Contract

The management contract is the foundation upon which the relationship between the property owner and the housing manager is built. In order for this relationship to be successful, it is important that the contract be well written, legally enforceable, and truly acceptable to both parties. The key terms of a management contract are provided in Figure 1.

The management contract should stipulate the length of the agreement and the fee for housing management services. It should enumerate the responsibilities of the owner vis-a-vis those of the housing management company, and should include a list of duties that the management company should carry out. This is the basis upon which the housing manager will ultimately be evaluated. The management contract should also specify the reporting requirements of the management company, and it should establish the limits of liability of both parties.

The management contract should contain an enforcement provision that gives the owner recourse should the housing manager not meet minimum performance standards or otherwise violate the terms of the contract. In this case, the owner may warn the manager to take appropriate steps to correct the problem. If the housing manager continues to violate the contract, however, then the contract may allow the owner to fine the manager or to cancel the management agreement altogether.

The Management Fee

An important part of the management contract is the financial compensation, or **management fee**, that the manager will receive. The amount of the fee is a crucial issue as no one will want to provide management services if the compensation they receive is insufficient to cover their costs. At the same time, the owner wants to keep the fee as low as possible while still maintaining an acceptable level of service.

In the U.S., management fees are typically between 5 and 8 percent of total gross collections (rent plus owner-paid utilities) for the properties being managed. Because of the relatively low level of rents in Slovakia as compared to the U.S., the management fee may have to be a higher percentage of the gross collections to obtain the desired level of service. The actual amount of the fee depends on a variety of factors, such as the type of services that the manager is expected to provide, the age and condition of the building being managed, and the housing market of the surrounding area.

Figure 0—Key Terms in a Housing Management Contract

- Name of the owner
- Name of the management company
- Date the contract was prepared
- Beginning and ending dates of the contract
- Specification of the services that are to be performed by the management company
- Description of information that must be transmitted from the owner to the management company and from the management company to the owner
- Amount of the management fee
- Obligations of the owner as to paying the management fee, assuring the availability of funds for paying bills and other obligations of the property, and meeting and communicating with the management company
- Rights of the management company to be paid its management fee, to disburse funds up to a stated limit, and to perform its duties and responsibilities without undue interference
- Rights of the owner to use excess funds not required for budgeted or operating expenses and to be promptly informed of any emergencies or urgent situations
- Provisions for penalties to be paid to the owner in case of inadequate performance by the management company
- Bonuses to be paid to the management company for superior performance
- Conditions for termination of the contract

Two different approaches can be taken to set the level of the management fee. The first is to estimate the minimum amount a potential manager would need to perform the desired management services given the number of units in a building and its other physical and financial attributes. This would involve preparing a budget that would include the salaries of the people that the manager would have to hire, other expenses that the manager would incur (renting office space, purchasing supplies and equipment, etc.), and a certain percentage of profit for the management company.

An alternative to trying to estimate the fee directly would be to allow the market to set the fee. The municipality could periodically open management of the public housing to competitive bidding, where different companies would be able to compete for contracts. As part of their proposals, the prospective housing managers could state what fee they would require to agree to perform the services. In this way, if two companies can provide the same services (with the same level of quality) but one for a

lower fee than the other, the municipality can choose the less expensive firm. By using competition to set the fee, the municipality knows that it is getting the best services for its money.

It is also desirable to structure the management fee so that the housing managers will have an incentive to perform well. The management fee may be paid on a per unit basis, as a percentage of gross collections, or as some kind of combination of the two. The different fee structures can result in very different levels of incentive for the manager to perform well.

If the management fee is set as a percentage of gross collections then there is an incentive for the manager to collect rent and other payments from the tenants promptly and to reduce the time that apartments are left vacant. This is because the fee depends directly on the number of tenants who actually pay their rent and other charges, and so the manager will try to keep this amount as high as possible. A percentage fee will also encourage the manager to raise rents, if he has the authority to do so, since the fee will increase as rents go up. While this may be desirable for a private owner, a municipality would not want the rent levels for its public housing set so high that its housing is no longer affordable for the people it is trying to serve. Therefore, a municipal government should not yield its authority to set rents to the housing manager.

A fee based on a percentage of gross collections is acceptable in the U.S. because American property managers generally have complete control over the process of filling vacant apartments and can take action against tenants who do not pay their rent. This is not generally the case in Slovakia. Many municipalities have a separate office that is responsible for maintaining waitlists. In addition, it is presently very difficult to collect rent from tenants because it is difficult to punish non-payers. It would be unfair, therefore, to penalize the manager by linking the management fee to events over which she may have little control.

A flat fee is a second alternative that may be fairer under such circumstances. The flat fee is a certain amount that is paid each month for each unit that is being managed. The problem with the flat fee is that it provides no incentive for filling vacant apartments or for collecting rents. The flat fee can be modified, however, with a system of financial bonuses and penalties that are linked to specific performance requirements. For example, the management fee could be reduced by a certain amount if rent collections fall below a certain percentage. (A complete discussion of bonuses and penalties will be provided in Chapter IV.)

The Rental Lease Contract

The rental lease contract establishes the relationship between the housing owner and the tenant. Like any other owner of rental housing, municipalities are in a relatively weak position with regard to tenants. Tenants have many rights and protections, and it is extremely difficult to evict tenants even if they do not pay their rent. Most of these conditions are imposed by national rental policy and currently cannot be changed by the municipality. Two items that would strengthen the municipality's position could, however, be added to most rental contracts. These are:

1) A Clause Relating to Evictions

The Civil Code contains eight provisions that state under what circumstances a tenant may be evicted. If a tenant is stripped of his legal rights to occupy a unit because of nonpayment of rent or another form of lease abrogation, the tenant can be evicted to alternate housing of a lower standard. This is rarely put into practice because of the extreme shortage of alternate housing. Also, it appears that even though evicting a tenant is technically possible, large-scale evictions would not be desirable.

Nevertheless, eviction is theoretically legal and tenants should be reminded of this fact. The lease should include the relevant passages from the Civil Code that describe evictions: the circumstances under which a tenant may be evicted, provision of alternate flats, etc. Inclusion of this information will, if nothing else, reinforce the fact that the tenant does have legal obligations to the owner to pay rent, and that there are potential negative consequences for not doing so.

2) Repairs for which the Tenants are Responsible

Tenants are responsible for paying for most of the repairs that are made inside their various units. The types of repairs for which the tenants are responsible should be enumerated in the rental contract, so that the tenants are fully aware of their legal responsibilities toward the owner and with respect to their units.

Contracts with Service Providers

The housing manager must, on behalf of the owner, execute contracts with various service providers such as utility companies, cleaning services, and construction and maintenance firms. The housing manager is responsible for paying the contractors and for monitoring the contractors' performance. In the case of repair contracts, for instance, the manager should verify that repairs are properly carried out, that quality materials are used, and that the work is completed on time.

Depending on the amount of the contract and the type of service, the manager may need to obtain the approval of the owner or Housing Office before signing the contract. The conditions under which the owner's approval is required should be listed in the owner's contract with the housing manager. The management contract should also indicate situations when the manager must obtain competitive bids from a specified number of firms before awarding a contract. This will help prevent the manager from awarding contracts based on considerations other than obtaining the best services for the lowest cost. (Detailed information on competitive bidding procedures may be found in Chapter IV.)

II.

III.

THE HOUSING OFFICE'S RESPONSIBILITIES AND PERFORMANCE

The previous chapter described the Housing Office, an institution which acts on behalf of the municipality and sees to it that the municipality's interests are preserved in the management of the housing stock. This chapter will describe the Housing Office's specific role and responsibilities.

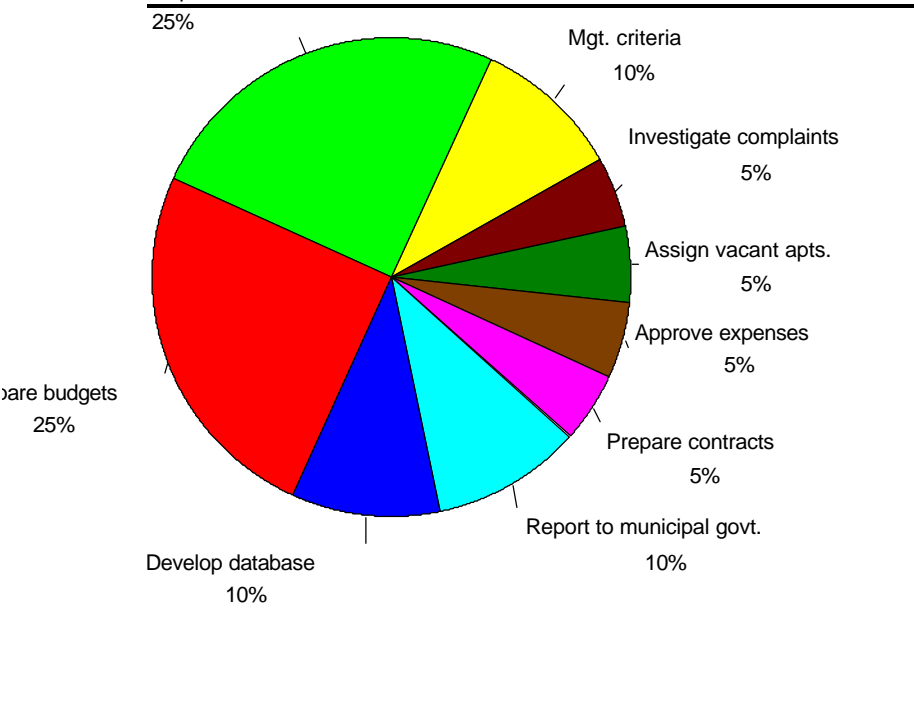
ORGANIZATION OF THE HOUSING OFFICE

Effective oversight of the management of rental property encompasses several activities: establishing parameters for managing individual properties; contracting with property management entities; monitoring the activities of the housing manager; and establishing budgets, financial plans, and physical improvement programs.

Most municipalities currently have some sort of housing office that could perform this role. To carry out its tasks in a more efficient manner, the responsibilities of the staff of the Housing Office may need to be reviewed and perhaps reapportioned. The amount of time that ought to be allocated to each task will vary depending upon the workload and the priorities at any given time. The following is a list of typical duties for the Housing Office and an estimated percentage of staff time that should be allocated to each activity (time use is summarized in Figure 2):

- 1) Develop criteria for the management of different segments of the housing inventory —the basis upon which the performance of the housing managers will be judged (10 percent of total time).

- 2) Monitor the housing manager's compliance with the management contract and criteria by reviewing financial and physical reports and inspecting buildings (25 percent).



3) Prepare, with participation from the housing manager, annual operating budgets for different segments of the housing inventory and plans to address long-term physical needs (25 percent).

4) Develop a database with information on all buildings and units (10 percent).

5) Report to the various levels of municipal government responsible for the public housing stock and keep them abreast of

relevant developments and problems (10 percent).

6) Prepare management contracts and supervise the bidding process for management contracts (5 percent).

7) Approve extraordinary expenses greater than the limit specified in the management contract (5 percent).

8) Act as liaison between the housing management companies and the entity that allocates apartments (5 percent).

9) Investigate tenant complaints (5 percent).

One way in which staff could be assigned to these tasks is to make specific duties the exclusive responsibility of certain personnel. Under this arrangement, one person would be responsible for building inspections, another for budgeting and planning, and so forth. In this way each person becomes specialized in a certain set of tasks.

Another way to allocate staff time is to make each person responsible for a distinct set of buildings. Each staff member would then do all planning, oversight, and reporting tasks for the housing in his or her portfolio. The advantage of this approach is that it allows each staff member to become very familiar with a specific set of buildings. By studying the housing manager's reports, performing building inspections, analyzing tenants' complaints, and considering other sources of information, the Housing Office staff member can make better decisions regarding future investment in and uses for the properties under her care.

Also, because each person in the Housing Office must become proficient in a variety of different tasks, the result will be to create a group of multi-skilled experts who can work more flexibly and be reassigned as needed.

This remainder of this chapter will describe each of the functions of the Housing Office in more detail.

DEVELOPING HOUSING MANAGEMENT CRITERIA

It is very important that the housing managers be given clear, explicit, and attainable performance standards to ensure the best possible management services are being provided. The Housing Offices need to develop these standards and make sure that they are being met. For example, it may be decided that the housing managers must keep nonpayment of rent and other tenant charges at less than 10 percent of total collections, or that the interior of each building must be repainted at least once every three years. Whatever standards are chosen, they should be provided in writing to the housing managers in the form of management criteria.

Management criteria are a set of guidelines that define how each building in the housing stock is to be operated. By defining the housing manager's responsibilities clearly and in writing, the owner can avoid any misunderstanding as to the type of management services to be provided and the level of performance expected. Ideally, separate management criteria would be prepared for each property in the municipality's inventory. For a city with a large number of properties, however, developing management criteria for individual buildings may be too time-consuming. As an alternative, the Housing Office can prepare management criteria for buildings of similar types. For example, one set of criteria could be prepared for stone construction buildings more than 30 years old with less than 20 units, and another for panel construction buildings less than 5 years old with more than 50 units.

An outline for management criteria is given in Figure 3. The management criteria should be as specific as possible so that there is no ambiguity as to the manager's responsibilities. The criteria should be *results oriented* rather than process oriented, that is, what matters is that the property is kept in the condition specified by the owner, and not that the housing manager has hired certain people or performed certain tasks.

Written management criteria benefit not only the owner of the property but the housing manager as well. If the requirements for good management performance are laid out clearly and precisely then the manager understands exactly what is expected of her. The manager can develop a plan that will put in place the services necessary to meet the management criteria. The criteria protect the housing manager from the owner changing or redefining his requirements impulsively and unpredictably.

In response to the management criteria, the housing manager should develop a **management plan** —a document describing how the manager will implement the requirements of the management criteria. For example, the management criteria could state that the housing manager must keep the buildings' common areas clean and free from debris. The housing manager should explain in the management plan how this will be accomplished. Will employees of the management company perform this task? Will a live-in custodian be hired? Will an outside cleaning service be used?

The purpose of the management plan is to provide the Housing Office with specific information regarding how the housing manager intends to operate the building. This is necessary so that the Housing Office can determine if the housing manager is making most efficient use of the resources available. Also, the management plan can indicate whether the housing manager has given serious thought to how the properties will be operated and how services will be provided. Once the management plan is prepared, the Housing Office should discuss it with the housing manager. The Housing Office must be confident that the plan is adequate for delivering the desired level of management services within the cost constraints specified by the budget.

MONITORING HOUSING MANAGER PERFORMANCE

Since it does no good to create performance standards that cannot be verified, the Housing Office must be able to monitor the housing managers' compliance with the management criteria. If the housing manager is not following the standards specified in the criteria, then the Housing Office should inform the housing manager of the problem and request that it be corrected immediately. If the problem is not corrected, then stronger action should be taken, such as fining the manager (if permitted by the management contract), reducing the number of properties that the manager is responsible for, or even, in the most serious cases, dismissing the housing manager altogether.

Figure 0—Management Criteria Outline

I. Introduction

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An Introduction to Asset Management

II. Operations and Maintenance

- A. Common areas
- B. Contracted services (garbage removal, pest control, elevator maintenance, inspections)
- C. Preventive maintenance
- D. Repairs
- E. Capital repairs and improvements
- F. Preparation of vacant units
- G. Maintenance of individual units
 - 1. Annual inspection
 - 2. Damage caused by the tenants

III. Administration, files, Personnel

- A. Files (by building, by unit)
- B. Personnel
 - 1. Superintendents, janitors
 - 2. Employee requirements, employment conditions

IV. Financial

- A. Rent collection
- B. Rent arrears
- C. Payment of bills
- D. Financial statements
- E. Budget preparation
- F. Security deposits
- G. Reserve for replacement fund

V. Relationship between the Property Manager and the Housing Office

- A. Submission of financial statements
- B. Quarterly reports
- C. Leasing of commercial units
- D. Process of unit inspections

VI. Management-Tenant Relations

A variety of means should be employed to monitor the performance of the housing management companies. These include examining reports provided by the housing manager, direct inspections of the buildings, and analyzing tenants' complaints. The Housing Office should also conduct an annual review of housing manager performance and report to municipal officials on the quality of management services.

Because of the importance of monitoring management performance, this topic will be dealt with in detail in Chapter III.

BUDGETING AND LONG-RANGE PLANNING

The Housing Office, as the representative of the municipality's interests, must work to ensure both the short-term and long-term viability of the municipality's residential property. At the beginning of each year the Housing Office, with the assistance of the housing managers, should prepare operating and capital repair budgets for the residential properties. These budgets should be based on past experience of building revenues and expenses and the current physical condition of the buildings' structures and equipment. The operating budget would cover expected revenues (subsidies and money received for rent, utilities, and other service charges) and normal operating expenses (repairs and utility costs). The capital budget includes large repair items (reconstruction of building physical components, replacement of worn equipment, and major renovations) and the sources of funds for these repairs (loans and reserve funds).

Ideally, separate operating and capital repair budgets should be developed for each building. If the municipality has a large number of buildings, however, it may be difficult to prepare individual budgets at first. Therefore, as with the preparation of the management criteria, the housing stock can be divided into several different building types and separate model budgets can be developed for each type. These model budgets can then be adjusted to specific buildings based on the number of apartments and commercial spaces.

The housing managers should keep detailed records on the income and expenses for each building. During the course of the year, actual income and expenditures should be compared against those projected by the budget. The Housing Office should investigate large discrepancies with the housing manager. Over time, as more financial data are accumulated on individual properties, it should become possible for the Housing Office to develop separate budgets for each residential building.

Because resources for dealing with repair needs are limited, it is not possible to address all needs on an immediate basis. Part of the planning process involves prioritizing repair needs so that the most effective use can be made of the revenues available for building maintenance. The next two sections will explain how to plan for and prioritize routine and capital maintenance tasks.

Determining Priority Repair Needs for Routine Maintenance

Building maintenance is ongoing; it is never completely finished. Problems arise on a continuous basis, particularly in older buildings, and need to be addressed promptly. In addition, long-term needs, such as repairs to building systems, must be dealt with. The housing manager must be adept at setting priorities for the work that needs to be done and scheduling tasks so that emergency maintenance is handled along with routine or less urgent repair needs.

Figure 4 provides some general guidelines for prioritizing routine maintenance work. Repairs are handled in order of urgency. The complaints of current tenants take highest priority —with emergency repairs of course taking precedence over non-emergency ones. Preparing vacant units comes next (because vacant units mean lost revenue), followed by preventive maintenance tasks and capital repairs.

Determining, Prioritizing, and Budgeting for Capital Repairs and Improvements

It is a good idea to set aside a percentage of the potential monthly gross rent in a separate bank account called the Renovation Account. The funds in this account are reserved for non-routine repairs and replacement of major building systems or components. Anticipating these large repair needs is important, therefore, so that adequate money can be put aside in the Renovation Account.

For each building the housing manager should record the age, quality, and condition of all building systems. This information is critical if the housing manager and Housing Office are to make good decisions about the future of the property: whether the property should be sold or kept, whether it should be renovated, or whether the building will be demolished and so should be allowed to deteriorate. While these decisions are always important, they are particularly so when the housing owner has limited funds to spend on the housing stock.

The housing manager should routinely inspect each building. At least once a year, detailed building and unit inspections should be made so that a complete picture of the building's condition can be formulated. Once this is done, the housing manager should estimate the remaining useful life of all building systems and the cost for replacing or overhauling these systems. The **useful life** of a system or item is the number of years that the system or item can be used until it must be replaced.

Figure 0—General Guidelines for Scheduling Work

1. Emergency maintenance items should be addressed immediately. If more than one emergency situation occurs at a time, the one that could cause the greatest damage to the property or pose the greatest safety hazard if left unattended should be addressed first.
2. Non-emergency items should be handled in the order of priority. If there is no priority, these items should be addressed in the order in which the complaints were received.
3. The timely preparation of vacant units is essential in order to prevent loss of rental revenues. Vacant unit preparation comes after emergency maintenance in terms of priority, but should be addressed along with requests for current repairs of a non-emergency nature.
4. Preventive maintenance items need to be scheduled on a timely basis to ensure that roofs are sound and that building systems and equipment are in good working condition.
5. If renovations are to be made to a building, the property manager's maintenance and janitorial staff (or hired workers) should be scheduled to prepare the units of buildings for the work to be done by the contractor(s). This could include removal of debris, preparation of walls for painting, repairs to plumbing or electrical systems, removal of appliances, etc. Immediately upon the contractors' completion of renovations, the maintenance and janitorial team should be scheduled to remove any leftover construction debris and clean the units and common areas of the building.

Calculating the useful life of all of the systems and equipment of a building and their eventual replacement cost can be very difficult. This is because the number of useful years of a system or piece of equipment depends upon a variety of factors: whether it was installed correctly, its quality, how it is maintained, the level of normal wear and tear or vandalism, and weather conditions. Once the housing manager has some historical information about a property —its systems and their level of maintenance—it becomes easier to estimate the useful life of the building's components.

It is a good idea to estimate the useful life of all building components and do a three to five-year budget for capital improvements. Although doing a capital repair budget for a longer period based on the useful life

estimates is possible, such a budget may be inaccurate if future replacement costs are unpredictable.

The first step is to develop a list of all possible building components that will need to be replaced at some point (Figure 5).³ For each item, information needs to be obtained about its year of purchase, fabrication or installation. An engineer, architect, or construction expert can help the housing manager in estimating the remaining useful life of each item by inspecting it to determine its condition. The expert should have an approximate idea of how many years each item would last if it were new. By subtracting the number of years in service and making adjustments depending upon wear and tear, the expert should be able to figure out the remaining useful life. Once the estimated useful life is determined, it would be very helpful if an estimate of the cost to replace each item, at its present value, could be provided as well.

³Since tenants are financially responsible for most repairs within their individual units, the list has been confined to building components and those components within units that relate to building systems, such as plumbing and heating.

Figure 0—List of Replaceable Building Components

Roof
Gutters and downspouts
Rafters
Windows and window frames
Doors and door frames
Paint (interior common areas)
Boilers
Water pipes
Waste pipes
Heat ducts
Gas lines
Electrical wiring
Air ventilation system
Heat thermostatic controls
Individual apartment heating units
Stucco
Concrete panels
Chimneys
Common area ceilings
Common area lighting
Roof sheathing
Fire extinguishers
Stair treads
Stairway hand rails
Utility sheds
Fences
Storage areas
Paint (building exterior)
Dumpsters (for waste disposal)
Dumpster enclosures
Concrete walkways
Asphalt (parking lots)
Balconies
Masonry
Exterior wooden trim or metal siding
Interior wall surfaces
Common area subfloors
Mailboxes

Using the data on the remaining useful life for different building systems, the Housing Office can easily see which components will need to be replaced in the next three to five years. Using this information, the

Housing Office can create a work plan and a capital budget for each property. The following example illustrates how a such a plan and budget are created.

Capital Repair Plan and Budget Example

A municipally-owned apartment building is approximately 20 years old. During its first fifteen years of operation, it had plenty of operating capital, and maintenance items were addressed on an as-needed basis. During the last five years, however, rents did not increase at the same pace as operating expenses, and certain building systems began to deteriorate. As a result, serious deferred maintenance items must now be addressed.

The Housing Office realized that the first step toward solving this problem was to obtain more revenues for repairs and improvements. To justify requesting additional funds, however, the Housing Office had to compile a physical needs assessment and a three-year plan during which these needs would be addressed.

With the help of the housing manager, the Housing Office hired a construction expert to help determine the building's physical needs, to prioritize those needs, and to provide cost estimates for the work. It was determined that during the next three years various items would need to be repaired or replaced in order for the building to remain in satisfactory condition. If all of these items were addressed, then very little would have to be spent on maintenance during the following five years, and the implementation of proper preventive maintenance techniques could extend this estimate to seven to ten years.

The report of the construction expert included a list of deferred maintenance items and cost estimates for addressing each of these items (Figure 6). After receiving this report, the Housing Office realized that paying for these repairs out of the building's current revenues would be impossible. For one thing, as of September 1994, when the budget was being prepared, the balance in the building's Renovation Account was only 149,606 Sk.

The Housing Office decided that it was feasible for the required repairs to be made over a three-year period, from 1995 through 1997, if the monthly deposits to the Renovation Account were increased. The Housing Office first prepared a three-year repair schedule, where items of the highest priority were addressed first (Figure 7). The schedule gave the timing and cost of each repair or replacement item.

The Housing Office then prepared an analysis of the Renovation Account to determine what the shortfall would be each year at the current rate of deposit, 5,778 Sk per month (Figure 8). The analysis revealed that the

Figure 0—List of Deferred Maintenance Items with Cost Estimate

Work Needed	Cost (Sk)
Exterior Painting	74,300
Replace roof	65,680
Replace of gutters/downspouts	15,200
Concrete repairs	2,000
Masonry repairs	8,000
Replace domestic hot water system	119,747
Replace boilers	42,000
Replace exhaust fans	300
Replace entry doors and locks	44,500
Replace windows at building entry	9,000
Replace common area windows, each floor	72,000
Total Anticipated Needs	452,727

monthly deposits to the Renovation Account would have to be increased so that shortfalls would not occur during 1996 and 1997.

If the monthly deposits to the Renovation Account were increased to 9,250 Sk starting in January 1995, the priority work items could be addressed, and the account would maintain a positive balance throughout the three-year period. The account fluctuation analysis at the new rate of deposit is given in Figure 9. If the municipality had the authority to raise rents, then the additional funds could be raised in this way. The municipality should consider the impact that an increase in rents would have on poorer tenants, however.⁴ Another alternative would be for the municipality to provide subsidies to the housing system to increase the amount of funds available for renovations. This may be difficult, however, if the municipality already lacks sufficient funds for other expenditures, like repairing roads.

⁴As an alternative to rent control, many countries provide housing allowances to families whose incomes are insufficient to afford adequate housing. The amount of the allowance depends on the size of the family's income and the cost of housing. It permits rents to be raised to market levels, while at the same time protecting poor families who would otherwise not be able to afford adequate housing. For more information on housing allowances, see Mikelsons, 1993.

Figure 0—Three Year Capital Repair Plan with Costs

Description of Item	Total (Sk)	1995	1996	1997
Paint exterior	74,300	--	60,000	14,300
Replace roof	65,680	20,830	22,395	22,455
Replace gutters/downspouts	15,200	5,000	5,200	5,000
Concrete repairs	2,000	2,000	--	--
Masonry repairs	8,000	--	--	8,000
Replace hot water system	119,747	119,747	--	--
Replace boilers	42,000	14,000	14,000	14,000
Replace exhaust fans	300	100	100	100
Replace entry doors and locks	44,500	22,250	10,250	12,000
Replace windows at building entry	9,000	4,500	4,500	--
Replace common area windows	72,000	24,000	24,000	24,000
Total Anticipated Needs	452,727	212,427	140,445	99,855

Although at this moment the municipality may lack reasonable solutions to the problem of funding the types of renovations described in this example, this type of planning exercise is useful for several reasons. First, it provides the municipality with an idea of the size and the types of repair needs in its properties. Such information can help the municipality formulate a housing privatization program. Second, it provides a basis for deciding how to prioritize repairs among different buildings. For instance, buildings with only minor needs for renovation may be able to forego these repairs for several years while attention is paid to properties in a more severe state of disrepair. Finally, the repair estimates obtained can be used to justify requests for increased rents or housing subsidies.

CREATING A HOUSING DATABASE

Good information is essential to the Housing Office so that it can make sound decisions regarding the housing stock. All municipalities have some types of records on their properties, but many do not have this information in a computerized database and do not update their records regularly. To be able to plan for future financial and maintenance needs of the property, the Housing Office should begin to collect a variety of information in a housing database.

Figure 0—Renovation Account Analysis

Account balance as of 9/30/94		149,606
Plus deposits, 10/94 - 12/94	17,334	
Less withdrawals, 10/94-12/94	0	
Account balance as of 12/31/94		166,940
Plus deposits, 1/95 - 12/95	69,336	
Less 1995 estimated expenditures	212,427	
Account balance as of 12/31/95		23,849
Plus deposits, 1/96 - 12/96	69,336	
Less 1996 estimated expenditures	140,445	
Account balance as of 12/31/96		<47,260>
Plus deposits, 1/97 - 12/97	69,336	
Less 1997 estimated expenditures	99,855	
Account balance as of 12/31/97		<77,779>

Figure 0—New Renovation Account Analysis

Account balance as of 9/30/94		149,606
Plus deposits, 10/94 - 12/94	17,334	
Less withdrawals, 10/94-12/94	0	
Account balance as of 12/31/94		166,940
Plus deposits, 1/95 - 12/95	111,000	
Less 1995 estimated expenditures	212,427	
Account balance as of 12/31/95		65,513
Plus deposits, 1/96 - 12/96	111,000	
Less 1996 estimated expenditures	140,445	
Account balance as of 12/31/96		36,068
Plus deposits, 1/97 - 12/97	111,000	
Less 1997 estimated expenditures	99,855	
Account balance as of 12/31/97		472,130

first step in preparing a housing database is to create a list of all the residential properties owned by the municipality. The municipality should compare different sources of information to compile this list. It should

consult its own records, as well as those of the cadastral office and the management companies that are operating its buildings. Any discrepancies should be resolved by consulting with the property manager or, if necessary, by going to visit different properties.

Once a comprehensive list of buildings has been prepared, the Housing Office should assemble information on the buildings. Every building should be assigned a *unique* identification number. In most municipalities, it will be possible to use the description number (*_islo popisne*) combined with a number denoting the part of the municipality as the building identification number.

For each building, the Housing Office should collect the following information:

- Building identification number
- Address (street and orientation number)
- Dimensions (height, length, width)
- Number of floors
- Year of construction
- Type of construction (stone, panel, etc.)
- Number of apartments
- Number of non residential spaces
- Ownership status (municipally-owned rental, condominium)
- Total area of apartments (m²)
- Total area of non residential spaces (m²)
- Total area of common spaces (m²)
- Central heating (yes/no)
- Elevator (yes/no)
- Identification number and area of all building plots (*pozemky*)

Most of this information should be obtainable from the management company or from the *passport domu*⁵ for the building. For the identification of building plots, it may be necessary to consult the cadastral office.

Apartments

Most of the necessary information on apartments and commercial spaces can be obtained from the housing management company and from building documents (*passport domu*, *passport bytu*,⁶ *eviden_ni list*⁷). For the rest of the information, a survey of the properties may need to be undertaken.

⁵Literally, "building passport." A standard Slovak document that contains information on various physical characteristics of a building.

⁶"Apartment passport," a document that contains information on the physical characteristics of an apartment.

For each apartment in every building, the Housing Office should collect the following information:

- Building identification number
- Apartment number (*_islo bytu*)
- Floor on which the apartment is located
- Category (I, II, III, IV)
- Occupancy status (occupied; vacant--ready for occupancy; vacant--needing renovation; vacant--being renovated)
- Tenure of unit (rental, condominium)
- Owner (municipality, unit occupant)
- Date of ownership change
- Floor space (m²)
- Patio (m²)
- Balcony (m²)
- Number of rooms
- Kitchen (yes, no)
- Bathroom (full, half, common outside apartment, none)
- Toilet (inside apartment, common outside apartment, none)
- Type of heating
- Hot water source
- Monthly clear rent
- Monthly charges for heat, water, electricity, and other utilities and services

The fields "Tenure of unit," "Owner," and "Date of ownership change" should be updated when apartments are sold.

Nonresidential Premises

For each non residential space in every building, the Housing Office should collect the following information:

- Building identification number
- Unit number (*_islo jednot.*)
- Floor on which the non residential space is located
- Occupancy status (occupied; vacant--ready for occupancy; vacant--needing renovation; vacant--being renovated)
- Tenure of unit (rental, condominium)
- Owner (municipality, unit occupant, condominium association)
- Date of ownership change
- Use (retail store, workshop, garage, etc.)

⁷A document that contains information used to calculate the maximum allowable rent that an owner may charge.

- Floor space (m²)
- Patio (m²)
- Balcony (m²)
- Number of rooms
- Kitchen (yes, no)
- Bathroom (full, half, common outside apartment, none)
- Toilet (inside apartment, common outside apartment, none)
- Type of heating
- Hot water source
- Monthly clear rent
- Monthly charges for heating, gas, water, electricity, and other utilities and services

Common Areas

The Housing Privatization Law (No. 182/1993) requires that the municipality compile a description of the common areas, common facilities, and appurtenances of the house, stating those parts that are for the use of only some owners in the building. Examples of common spaces include storage rooms, boiler rooms, and laundry rooms.

For each common area or appurtenance for every building, the Housing Office should collect the following information:

- Building identification number
- Description of common area, facility, or appurtenance
- If use is limited, indicate units that have right to use

Building Equipment

For each major building component or piece of equipment, the Housing Office should collect the following information:

- Building identification number
- Description of component or equipment
- Quantity
- Model, make, or type
- Serial number
- Year of construction or installation
- Year of last major repair
- Description of last major repair
- Estimated remaining useful life
- Date of useful life estimate

Technical Condition Survey

For each major building component or fixture, the following information should be obtained:

- Building identification number
- Description of component or fixture
- Condition (New, Good, Fair, Poor)
- Estimated amount for needed repair or replacement (Sk)
- Description of needed repairs or replacement

Residential and Non residential Tenants

The Housing Office also should have information on tenants who occupy the municipal housing. For each residential tenant in every building, the Housing Office should collect the following information:

- Building identification number
- Apartment number
- Name of principal tenant
- Number of adults and children living in apartment

For each non residential tenant in every building, the Housing Office should collect the following information:

- Building identification number
- Unit number (*_islo jednot.*)
- Name of tenant
- Type of organization
- Contact address
- Purpose for which unit is used

Annual Income and Operating Expenses

In addition to the above information, it would be very useful for the Housing Office to compile data on the income and operating expenses for each building. This type of financial information is very valuable for making decisions about future investments in the municipality's remaining rental properties. If the municipality's housing management companies are not recording income and expenses on a building-by-building basis, they should begin doing so as soon as possible. This is simply a matter of disaggregating all revenues and expenses by building and recording the building identification number along with each income or expense entry in the accounting records.

The following financial information should be recorded on a monthly basis:

- Building identification number
- Income from residential rent
- Income from non residential rent
- Income from heating, gas, water, electric, and other utility and service charges
- Building operating and maintenance subsidies received from government
- Other income (describe)
- Expenses for routine repairs and maintenance
- Expenses for capital repairs
- Expenses for heating, gas, water, electric, and other utility and service charges
- Management fee (if applicable)
- Other expenses (describe)

REPORTING TO MUNICIPAL OFFICIALS

The Housing Office should prepare regular reports on the properties being managed by the housing manager. These reports should be given to the Housing Office, the Deputy Mayor responsible for residential property management, and any other public officials who are concerned with the operation of municipal housing. The nature and frequency of these reports should be decided by municipal officials. Some suggested reports are:

- 1) Income and expense statements for each management firm, providing information both for the most recent month or quarter and cumulative totals since the beginning of the year.
- 2) A summary of repair statistics for each management firm, indicating numbers and types of complaints received, answered, and still awaiting action.
- 3) A vacancy report for each management firm, showing the number of units vacated and assigned during the month or quarter and the current number of occupied and vacant housing units. The report should also provide the numbers of vacant housing units that are currently habitable, the number requiring extensive renovation before they can be occupied, and the amount of funds needed to renovate the vacant apartments.
- 4) A summary report prepared by the Housing Office on any significant management problems or situations in the housing stock requiring special attention.

PREPARING MANAGEMENT CONTRACTS

The Housing Office should prepare contracts for hiring housing managers. Some issues relating to the management contract were discussed in Chapter II. If the municipality decides to bid contracts for new management companies, or to rebid the contracts held by existing management companies, then the Housing Office should prepare the request for proposals from the prospective property managers, receive and process the bid proposals, and be involved in evaluating and selecting the proposals.

APPROVING EXTRAORDINARY EXPENSES

As a means of maintaining control over the management activities, the management contract may specify that all repair expenses greater than a certain monetary limit must be approved in advance by the Housing Office. All such expenses should be consistent with the budget and long-term maintenance plan developed by the Housing Office and the housing manager. In addition, for contracts above a certain amount it would be a good idea to require the housing manager to obtain at least three bids from different companies that are able to provide the needed services. It could then be up to the Housing Office or the property manager to select the winning firm. This would help ensure that the service contracts are awarded in the best interests of the municipality.

The Housing Office should also verify that large renovation projects are completed on schedule and that the work is of good quality. Contracts for renovation projects should specify a completion schedule with intermediate steps. For example, a contract for replacing a roof could have three steps: clearing the old roof, laying down the first layer of roofing material, and putting on the final roof. Payments to the contractor could be tied to satisfactory completion of each step. Both the Housing Office and the housing manager should inspect the completed work before final payment to the contractor is made. *Final payment should not be made to the contractor until the Housing Office and the housing manager are satisfied that the contractor has completed the work satisfactorily.* It could also be beneficial to have a construction expert from the municipality or an independent construction or engineering firm inspect the work as well.

ALLOCATING VACANT UNITS

If the municipality has the responsibility for maintaining the waiting lists and assigning vacant apartments, then the Housing Office should compile information on a regular basis on the status of apartment vacancies and assignments. One of the most important pieces of information is the length of time between the date when the apartment was vacated and the date when the new tenant moves into the unit. Knowing this is critically important to judge whether vacant units are being filled promptly.

The organization responsible for assigning vacant apartments should prepare a monthly or quarterly report on unit assignments that provides the following information during the past period:

- Number of units vacated during the past month (quarter)
- Number of vacancies filled during the past month (quarter)
- Number of vacant units as of the end of the month (quarter)
- Of the vacant units, the number that are ready for occupancy
- Number of occupied units as of the end of the month (quarter)
- The vacancy rate ⁸

RESPONDING TO TENANT COMPLAINTS

As was stated in the Chapter I, the tenant should be considered the client of both the Housing Office and the property manager. If the tenant is not satisfied, then the housing system is not fulfilling one of its primary goals. Nevertheless, it is important that the Housing Office not become completely bogged down with taking complaints from tenants.

When a manager first takes over a property, the number of complaints may initially be quite large. If these complaints are handled with sensitivity and a sympathetic ear, the number will significantly decline and become manageable. Most tenants want to know that their complaints are being heard and taken seriously. If they are convinced of the good intentions of the management company and the Housing Office, then they will be more understanding about having to wait for a resolution to their problem. This approach will go a long way toward reducing the volume of complaints that the Housing Office and the housing manager must address.

The Housing Office should establish a proper complaint procedure so that tenants can voice their concerns without taking an excessive amount of the Housing Office's time. The complaint procedure could require tenants to

⁸The vacancy rate is equal to the number of vacant units divided by the total number of occupied and vacant units. The vacancy rate does not include permanently uninhabitable units.

submit their complaints first to the appropriate representative of the housing management company either orally or, if the tenant prefers, in writing. If the situation is not resolved satisfactorily within a specified period of time, then the tenant could be required to report the situation to a supervisor at the housing management company.

If the complaint is still not resolved to the tenant's satisfaction, then the tenant may forward the complaint to the Housing Office *in writing*. The written complaint should contain the following:

- 1) A statement of the complaint.
- 2) The date on which the original complaint was made to the housing manager.
- 3) The date on which the complaint was addressed to the housing management company supervisor and the name of the supervisor.
- 4) A description of how the problem currently stands.

If this procedure is not followed, the Housing Office should return the correspondence to the tenant along with a printed copy of the complaint reporting procedures.

It is important that the amount of time spent dealing with tenant complaints be kept low so that the staff will have time to carry out other important duties. It is vital that the Housing Office be able to review reports and other documents provided by the housing managers and that they have time to make inspections of the buildings. Such activities will lead to a direct improvement in building services, which is in the interests of the tenants.

IV.

V.

MONITORING HOUSING MANAGEMENT PERFORMANCE

One of the most important responsibilities of the Housing Office is to monitor the performance of the housing management companies. This chapter will explain in more detail how the Housing Office can more effectively oversee housing management activities.

MONTHLY REPORTING REQUIREMENTS

The housing manager should be required to submit regular reports on the buildings under his care. This will allow the Housing Office to monitor both the performance of the housing manager and the condition of the housing stock. Without timely, relevant information, it is impossible for the municipality to know whether its property is being maintained properly. The reports will also help the municipality to make informed choices regarding future investments in the housing stock or decisions about sales of housing units.

The current practice in some municipalities is for the housing manager to provide summary financial reports that contain very few categories of building expenses and revenues. The information in these reports is an aggregate of the financial transactions of all the buildings in the housing manager's portfolio, so that it is not possible to determine the financial condition of individual buildings or even of smaller groups of buildings.

Obtaining reports on a building-by-building basis can be very valuable for the Housing Office, the municipality, and the housing manager. This information can be used to identify buildings that are the most costly to operate, allowing one to direct efforts toward reducing the cost of operating these buildings. In addition, such information is helpful in determining aspects of housing privatization policy, such as which buildings should be privatized and what an appropriate sales price should be. It is beneficial, therefore, if the management companies produces financial reports on a building-by-building basis.

Even in a small city with only 100 residential properties, it would not be possible for the Housing Office to examine every report for every building. Instead, the Housing Office should select several buildings each month and carefully review the reports for those buildings. If there are problems or questions, then these should be taken up with the housing manager. In subsequent months, the Housing Office should review the reports for buildings where problems were previously discovered to see if the situation has improved, remained the same, or has gotten worse.

The municipality should only require the housing manager to provide information that it needs and is able to use. Simply demanding that the housing manager submit reports is not sufficient —those reports must be used by the Housing Office and municipality officials to assess the state of the housing stock and the performance of the management company. Although there are many different types of reports that the managers could provide, there are a few extremely important ones that all housing managers should submit. These are the vacancy report, the collection report, the delinquency report, the income and expense statement, the cash flow statement, and the repair report. Each of these reports is described briefly below.

Vacancy Report

One of the most serious problems facing municipalities in operating residential property is the lack of revenues available for housing. Rents, which are very low, cannot be increased above the limits set by law, and other means of raising revenues (taxes, fees, etc.) are also limited. Given this situation, the municipalities must do everything they can to eliminate any loss of revenues.

There are two basic types of housing revenue loss —vacancy loss and delinquency (or collection) loss. The first will be discussed here, the second under the Collection and Delinquency Reports. **Vacancy loss** is the loss of rental income due to vacant units. When apartments or commercial spaces are unoccupied, they are not generating any revenue. While a certain amount of vacancy loss is normal for any property, the municipality should strive to have nearly all units occupied in its buildings and to keep at a minimum the time it takes to move a new tenant into a vacant apartment. Due to the existing shortage of housing, it is inadvisable to allow units to sit vacant for long periods of time; keeping vacancies to a minimum will also result in financial gains.

The Vacancy Report provides the Housing Office with information needed to monitor vacancy losses. At a minimum, the report should list the vacant units in each building, indicating for each one the date when the unit was vacated, the type of work that needs to be performed in order to prepare the unit for the next tenant, a cost estimate for this work, the expected completion date for the renovations, and the expected move-in date of the

m: ABC s. r. o.
 r Month Ended, February, 1993
 ilding address: Anglická 12
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Date Vacated	Apt. Number	Work Needed	Completion Date	Cost of Refurbishment	Proposed Move-In Date
1.2.93	7	Painting, new linoleum, new bedroom window, cleaning	28.2.93	20 655 Sk	
15.2.93	12	Painting, new toilet, new bathroom sink, new light fixtures, cleaning	7.3.93	16 450 Sk	
1.3.93	1	Cleaning	5.3.93	400 Sk	
1.3.93	19	Painting, Cleaning			

new tenant (Sample Vacancy Report #1). The report format can be further augmented by adding the actual renovation costs and the cumulative rent loss attri butable to the vacant units (Sample Vacancy Report #2).

With the information in the Vacancy Report, the Housing Office can keep track of vacancy losses and gauge the effectiveness of measures to eliminate them. In the West, it is normally the housing manager's responsibility to ensure that vacancy losses are kept as low as possible

because the housing manager is responsible for all aspects of occupancy management—advertising apartments, maintaining waiting lists, preparing vacant units for occupancy, and selecting new tenants. In most Slovakian municipalities, however, the housing managers do not carry out all of these functions. They do not, for example, select new tenants.

Because of this division of responsibilities between the housing managers and the municipality, the housing manager cannot be held solely accountable for revenue losses due to vacancies. Nevertheless, the Housing Office should ensure that those parts of the process that are the housing manager's responsibility are carried out with minimum delay. For example, the municipality could require the housing manager, within one week of an apartment being vacated, to inspect the unit and to prepare a written cost estimate for any renovations that are needed before a new tenant can move in. The Housing Office and the housing manager would then agree upon a date when the renovations should be completed. Providing deadlines to complete these tasks will reduce the time needed to prepare apartments for new tenants and reduce vacancy losses.

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Month Ended, March, 1993

Iding address: Anglická 12

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Date 'acated	Apt. No.	Work Needed	Estimated cost (Sk)	Comple- tion Date	Rent Loss (Sk)	Actual Work Done	Cost of Refurbish- ment (Sk)	Proposed Move-In Date
1.2.93	7	Painting, new linoleum, new bedroom window, cleaning	20 000	28.2.93	600	Painting, new linoleum, new bedroom window, cleaning	20 655	
15.2.93	12	Painting, new toilet, new bathroom sink, new light fixtures, cleaning	15 000	7.3.93	450	Painting, new toilet, new light fixtures, cleaning	16 450	
1.3.93	1	Cleaning	400	5.3.93	300	Cleaning	400	
1.3.93	19	Painting, Cleaning	7 150		300			

It should be pointed out that the municipality may wish to leave an apartment unoccupied if the cost of renovating the unit is much greater than the expected rent revenue that would be received if the unit were

occupied. For example, suppose that a vacant Category IV⁹ apartment requires renovations of 10,000 Sk before it is fit to be occupied. If the rent for this apartment is only 100 Sk per month, then it will take more than eight years before the investment is repaid.¹⁰ In this case, using its money to renovate apartments that will yield a greater financial return on its investment may be better for the municipality. Of course, if neglecting maintenance on this unit would result in damage to other parts of the building (for example, if there is a problem with the plumbing in the apartment), then these repairs should be completed to avoid serious damage to the building. If an apartment is deemed uninhabitable, then the municipality should seal it shut to prevent anyone from occupying it illegally.

Collection and Delinquent Tenant Reports

The other type of revenue loss that the municipality should try to eliminate is loss due to nonpayment by tenants, or **delinquency loss**. Although the law states that a tenant can lose the right to occupy his apartment for nonpayment of rent for three consecutive months, it is a difficult and time-consuming process to evict a tenant and up until now this means of enforcement has not been widely used. Nevertheless, if the municipality is going to be able to have sufficient funds for repairs, renovations, and utilities, then it must take all possible steps to ensure that every tenant pays her fair share of rent and other charges.

It is one of the housing manager's most important responsibilities to see that the tenants pay their bills in full and on time. If a tenant does not pay by the required due date, then the manager should take appropriate steps immediately to correct the situation. Initially, this may involve sending a written notice to the tenant requesting payment. If the problem persists, the housing manager may need to discuss the issue with the tenant in person, or, if necessary, take legal action against the tenant.

Even though the eviction process can be costly and time-consuming, having strictly enforced rent collection practices is essential. While it may not seem worth the expense and effort to force a single delinquent tenant to pay, one must consider the larger consequences of not enforcing payment. If the municipality does not take action against one delinquent tenant, then other tenants will be encouraged to withhold their payments as well and the situation will soon get out of hand. There is also a question of fairness. If the municipality does not force delinquent tenants to pay, it would, in effect, be penalizing those tenants who do pay.

⁹The lowest level of apartment quality in Slovakia, measured in terms of the physical facilities provided (central heating, elevator, w.c., and so on).

¹⁰This, of course, is an overly simplified analysis, since it does not take into account either the possibility of future increases or the effects of inflation on the value of future rent receipts.

Two reports are designed to allow the Housing Office to monitor the amount of past due rent. The first is the Collection Report (see sample), which should be submitted every month. It lists the total amount of charges assessed and payments received for each building in the manager's inventory, as well as the accumulated unpaid charges to date.¹¹ This report can be used by the municipality to judge how effective different housing managers are in reducing tenant nonpayment. The municipality should set a standard for collection arrears that all managers should be required to maintain. For example, the standard could be that accumulated arrears should total no more than 10 percent of total expected gross collections.

¹¹This simple collection report contains the minimum amount of information that should be reported each month. There can be other versions of this report that provide more detailed information. For example, instead of listing totals by building, the report could list separately the total accumulated arrears for each tenant who has not fully paid his rent and for charges. In another version of the report, called an **aged delinquency report**, the amounts owed by the tenants would be broken down by the length of time that the payments are past due (0 to 30 days, 30 to 60 days, 60 to 90 days, and over 90 days).

MONTHLY COLLECTION REPORT

Management company: ABC, s r o
 Prepared: 8 November 1993

Report for: August 1993

no.	Occupied units		Vacant units		Payments			Amount received	Unpaid balance
	Res.	Comm.	Res.	Comm.	Rent	Other	Total		
-0100	24	0	0	0	11300	14600	25900	25900	0
-0102	19	2	1	0	19600	12000	31600	30500	1100
-0103	12	1	0	0	3430	4680	8110	4024	4086
-3034	75	0	0	0	75620	112000	187620	184310	3310
TOTAL	2431	109	11	0	422460	505090	927550	879400	48150

A second report, the Delinquent Tenant Report, consists of a list of tenants who have not paid rent or other charges. The report should list the name of each delinquent tenant along the total amount of unpaid charges. The Housing Office should examine the report to see if there are many cases where tenants have not paid for several months. The Housing Office should also see if the list of delinquent tenants is growing from one report to the next. If so, the matter should be discussed with the housing manager to learn why this is the case and what can be done to reverse the trend.

Reports on delinquencies accumulated by the municipality also may be useful in influencing national policy on the rights of property owners and tenants. If municipalities can document that they are losing a large amount of revenue from tenant nonpayment, the national government may decide to modify the law to make it easier to collect past due rents.

Income and Expense Statement and Cash Flow Statement

Regular financial reports are very important for the municipality to be able to monitor the practices of the housing manager and to verify that building funds are being spent properly. At a minimum, the housing manager should provide the municipality with monthly financial statements on the entire portfolio of buildings that he is managing. It would be much more useful, however, if these statements could be prepared on a building-by-building basis or separately for subgroups of buildings. This information would help the Housing Office and the housing manager to identify specific buildings that are expensive to operate. With this list of buildings, a further analysis could be undertaken to find the specific building systems that are responsible for the higher costs and to develop a plan for controlling those costs.

The **income and expense statement** and the **cash flow statement** (see samples) are two basic financial reports that the housing manager should provide to the Housing Office on a monthly basis. The accounting and cash handling procedures that the management companies must follow should be specified in the management contract. All companies must use double-entry accounting procedures as required under law (Act no. 563/1991 Coll.). Accounting records for municipal property must be kept separately from the accounting records for the management company's operations or from the accounting records for buildings belonging to other owners. In addition, all management firms should be required to use the same chart of accounts for recording building transactions.

The housing manager should be required to keep building accounts in a computerized format. In addition, each accounting entry should be coded with the *_islo _ast* and *_islo popisne* of the building to which it applies. This will permit the extraction of income and expense data for individual buildings. The housing manager should also maintain a separate bank account

for the operating funds of the buildings that it is managing for the municipality. Only income from the municipal buildings should be put into this account, and only payments for acceptable building expenses should be paid from this account.¹² The housing manager should never use money from this account to pay for expenses that ought to be covered from the management fee. The municipality may also want to establish a separate bank account for keeping funds that are set aside for major building repairs.

There are two different methods for recording income and expenses —the *cash basis* and the *accrual basis*. Large firms using double-entry accounting are required to keep accounts on an accrual basis, while smaller, not-for-profit organizations are allowed to use single-entry accounting on a cash basis. The difference between cash basis and accrual basis has to do with when and how income and expenses are recorded.

When accounts are kept on a cash basis, income and expenses are recorded when money is actually received or paid. For example, rent from Mr. Novak would be recorded as income only when the cash payment from Mr. Novak is received by the housing manager. Similarly, a charge from a contractor for elevator maintenance services would be recorded as an expense only when the housing manager actually pays the contractor.

¹²In the U.S., it would be common practice to have separate bank accounts for each property.

management firm: ABC, s r o
November 1993

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port for: 1023 Obchodná ul.
October 1993

	Current Month			Year to Date		
	Actual	Budget	Variance	Actual	Budget	Variance

INCOME AND EXPENSE STATEMENT (Page 2)

PAYMENTS RECEIVED

INCOME

Management and Service Payments:
Management firm: ABC, s r o
November 1993
Residential rent

Residential rent
Port for: 1023 Obchodná ul.
October 1993

Total

Electricity

Garbage removal (PDO)

Sewerage removal (PDO)

Elevator

Elevator cleaning

Chimney cleaning

Material (STA)

Other

Services and Services:

Total

Total

Principal Subsidies:

Principal Subsidies:

Water and heat

Garbage removal (PDO)

Sewerage removal

Elevator

Elevator cleaning

Chimney cleaning

Management fee

Material (STA)

Other

Cleaning service

Total

Total

Financial Payments:

Financial Income:

Bank Interest

Repair and Maintenance:

Bank Interest

Total

Small repairs--labor

Small repairs--materials

Major repairs

Major repairs and renovations

Net Income:

Gas conversion

Late payment charges

Late payment charges

Total

Repair charges

Other

Administrative Expenses:

Total

Total

Office rent

Office supplies

Management fee

Total

TOTAL PAYMENTS

TOTAL INCOME

Total

CASH FLOW STATEMENT (Page 2)

Expenses and Insurance:

Total

Management firm: ABC, s r o

November 1993

Total

Port for: 1023 Obchodná ul.
October 1993

TOTAL EXPENSES

Total

Total

NET PROFIT (LOSS)

Total

Current Month

Year to Date

When accounts are kept on an accrual basis, income and expenses are recorded when they are incurred. So, the rent from Mr. Novak would be entered as income on the building account when the rent charge is assessed to Mr. Novak, and not when the money is received. The charge from the contractor would be entered as a building expense upon receipt of an invoice from the contractor. The advantage of the accrual method is that it provides a complete picture of the financial situation of the building.

When accounts are kept on an accrual basis, it is possible to extract from the accounting records information on a cash basis as well. The two financial reports —the income and expense statement and the cash flow statement—differ primarily in that the former summarizes the financial situation of the property on an accrual basis and the latter on a cash basis. Therefore, the income and expense statement provides a picture of the financial situation of the property, taking into account income that is owed to the property and payments that must be made on behalf of the property. The cash flow statement, on the other hand, indicates the cash situation of the property based on the actual flow of money into and out of the property's bank account.

A second difference between the two reports is that the income and expense statement includes a comparison to the budgeted amounts for each income and expense item. For both the current month and the period from the beginning of the year to the current month, amount of income and expense is given along with the budgeted amount for that item, and the difference between the two. This allows one to see instantly whether the property is over or under budget for specific income and spending categories.

Repair Log and Summary Reports

The municipality should require the housing manager to keep a log of tenant complaints and standardized repair records. The repair records should include at least the following information:

- Building identification number
- Date when the repair order was generated
- Description of the work
- Type of repair (emergency, vacant unit preparation, normal, or preventive maintenance)
 - Name of the tenant making the complaint
 - Date when someone was sent to investigate the complaint
 - Date when the complaint was resolved
 - Description of the resolution (repaired, not repaired, etc.)
 - Costs of labor and any needed materials

In addition, if a contractor completed the repair, the record should record the date that the management company inspected the work.

Each repair record should be coded by type of repair so that at the end of each month, the housing manager can submit a summary of repair costs and a summary of repair requests (see samples). These summaries should list the number and cost of repair requests and completion dates for different building systems. This will allow the Housing Office to find out if the housing manager is effectively dealing with all repair requests, or if a backlog of requests is developing. The Housing Office will also be able to identify the specific building systems that are responsible for the largest number of repairs.

BUILDING INSPECTIONS

One of the most valuable tools the Housing Office can use to evaluate the performance of the housing management companies is direct observation, that is, periodically visiting a sample of buildings. Because the Housing Office may be responsible for monitoring as many as 2,000 to 5,000 units, only a few buildings can be inspected each month. By visiting a representative sample of buildings, however, the Housing Office can form a good opinion about a housing manager's performance.

The Housing Office should choose between ten and fifteen buildings (or more if the buildings are small) to inspect during any month. The actual number should be sufficient to ensure that during the course of the year all of the buildings are inspected at least once. Buildings chosen for inspection each month should include a variety of sizes and construction types.

It is preferable that no advance notice of the inspections be given to the housing manager, except that which is necessary to allow the Housing Office to enter vacant units and, in some cases, occupied units. Tenants should receive at least 24 hours' notice before an apartment inspection.

A routine building inspection should take no longer than 30 to 45 minutes. Detailed inspections will take longer, but these can be done less frequently. The management criteria defines the housing manager's specific responsibilities for a building or group of buildings, and so these criteria provide a framework for the inspection. For instance, if one criterion is that the public areas must be kept clean and the stairways swept, the Housing Office would want to pay attention to the level of housekeeping in the building.

SUMMARY OF REPAIR COSTS

Management Company: ABC, s r o
November 1993

Report for: 64
1023 Obchodná ul.
October 1993

An Introduction to Asset Management

Repair Type	Number of completed repairs	Costs (\$k)		
		Total	Materials	Labor
Landscaping				
External walkways				
Building facade				
Building entry doors				
Exterior lighting				
Building exterior, other				
Common area floors				
Common area windows				
Stairways				
Interior walls				
Interior lighting				
Building interior, other				
Elevators				
Boiler				
Gas lines and valves				
Heating system				
Electrical system				
Sewer, septic tank				
Water lines				
Plumbing				
Fire equipment				
TOTAL				

SUMMARY OF REPAIR REQUESTS

Management Company: ABC s r o
November 1993

Report for: 1023 Obchodná ul.
October 1993

Repair Type	Start of month outstanding complaints	Current month		End of month outstanding complaints	Average response time (days)
		Complaints			

Inspections should include the following areas: entry way to the building, common areas (stairways, hallways, lobbies), elevators, equipment rooms (heating, ventilation, elevator), basements, storage areas, roofs, vacant units, one or two occupied units (optional), building periphery (backyard, garden, etc.) Special attention should be given to the building exterior, particularly to the windows, doors, joints between concrete panels, rain gutters, and downspouts.

Even though thoroughly inspecting some building systems requires technical expertise, the Housing Office should know enough to be able to describe obvious problems. Nevertheless, it might be beneficial to have some construction or technical experts accompany the Housing Office on the first few building inspections. The experts could alert the Housing Office to the types of problems to look for and could provide basic information regarding building systems. These inspections are not meant to replace any legally required inspections by technical experts (such as inspections of fire control systems). Rather, they are intended to provide the Housing Office with a general impression of the housing manager's performance and the state of the property.

In order to have easy access to the building, both the housing manager and the Housing Office should have keys to enter all public spaces of municipally-owned buildings. This is necessary not only so that the building may be inspected, but also so that it may be entered easily in case of an emergency. The keys should be clearly labeled and kept securely in a well-organized manner, such as hanging on hooks in a locked cabinet.

In the U.S., it is normal for the housing manager to have keys not only to public areas, but keys to every apartment as well. Tenants are not allowed to add or remove apartment door locks unless such a change is approved by the housing manager. This allows the manager to enter the apartment in case of an emergency and to perform maintenance and repairs when the tenant is not at home. Except in emergencies, however, the manager is generally not allowed to enter the apartment without providing 24 hours' notice to the tenant.

The fact that a U.S. housing manager would have keys to the tenants' apartments and a Slovak housing manager probably would not is indicative of the different approach to rental housing in the West, where the rights of the property owner are stronger than they are in Slovakia. It is likely that most Slovak tenants would object to the housing managers having keys to their apartments. In addition, given the fact that most municipally-owned apartments will be privatized in a few years, it does not seem worth the effort for the municipality to try to collect keys for all apartments at this time.

Nevertheless, once most of the units have been privatized the municipality should consider obtaining keys for all apartments that remain

in its owner ship. This could be done as part of a modernization program where the apartment doors are replaced or repainted and the door locks replaced with ones of a uniform design. Having a standard design of locks will make repairing them easier because a supply of spare parts can be kept in stock. Once their locks have been replaced, tenants should be prohibited from adding or changing locks without prior permission of the housing manager.

All property inspections must be documented in writing. A sample building inspection form is provided in Annex A. If the Housing Office notices defects or conditions requiring attention, then these items should be noted. Following the inspection, the Housing Office should inform the housing manager of any problems discovered, and the Housing Office should follow up later to see if the problems have been corrected. The written inspection records will also be useful for evaluating the manager's performance during the annual evaluation.

LOG OF TENANT COMPLAINTS

While receiving complaints from the tenants will inevitably be a part of the Housing Office's job, this task could easily consume all of the staff's time. As was discussed earlier, however, the amount of time spent dealing with tenant complaints should be kept to a minimum so that the Housing Office is able to deal with other important matters.

The Housing Office should keep a log of tenant complaints. The complaints in this log should be coded so that statistics on the types of complaints could be produced on a monthly or quarterly basis. A set of sample categories for coding complaints is given in Figure 10. For instance, it would be valuable to know if most complaints have to do with problems related to the maintenance of building systems or with tenant-management disputes. Furthermore, by dividing maintenance-related complaints into different categories, the Housing Office would obtain valuable information concerning the nature of the physical problems in different buildings. If the complaint logs are separated by management company, such information would also be useful for evaluating the performance of the housing managers.

The following would be useful information for the Housing Office to obtain from the coded complaint logs:

- 1) How many complaints were received from buildings managed by each housing manager?
- 2) What is the ratio of tenant complaints to the number of units in each housing manager's portfolio during a given month?

Figure 0—Categories for Coding Tenant Complaints

1. Maintenance problems connected with building systems:

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- | | | | |
|-----|------------|-----|-------------|
| 1.1 | Heating | 1.4 | Water |
| 1.2 | Electrical | 1.5 | Waste lines |
| 1.3 | Gas | | |

2. Structural and construction related problems:

- | | | | |
|-----|------------|-----|---------------------------|
| 2.1 | Roof | 2.5 | Insulation |
| 2.2 | Chimney | 2.6 | Windows and Window Frames |
| 2.3 | Foundation | 2.7 | Doors and Door Frames |
| 2.4 | Panels | | |

3. Maintenance problems connected with building systems affecting unit interiors

4. Disputes with housing management about rent and other charges

5. Lack of cleanliness, sanitation of the building - evidence of rodents or vermin

6. Problems between tenants

3) How many complaints were received per building?

4)How many complaints were received of an administrative nature? What is the ratio of administrative complaints to the number of units in the housing manager's portfolio?

5) How many maintenance complaints for each category were received for each building? For all of the buildings?

A relatively large number of complaints received from the tenants of a particular management company does not necessarily indicate that a housing manager is doing a poor job. The properties operated by that management company may have been in worse condition than those of other managers. Nevertheless, it is important that the Housing Office monitor the number of complaints and investigate why some housing managers' tenants may be complaining more than others'.

ANNUAL PERFORMANCE REVIEW

In addition to monitoring the housing manager's compliance with the management contract on an ongoing basis, the Housing Office should assess the overall performance of the housing management companies annually. These **annual performance evaluations** or **annual performance reviews** should be as objective as possible. The Housing Office should judge each housing management firm on the same basis and using the same set of criteria. It is a good idea for the Housing Office to have a **management review form** that specifies the topics or areas to be evaluated. The same form should be used when conducting the management review of each company. (A suggested format for the management reviews may be found in Annex B.)

The housing management company should be notified at least two weeks before the scheduled review and should be given an indication of what the reviewer will focus on. During the actual review, the Housing Office should note any findings on a copy of the review form and should prepare a final report back at the office. A copy of the report should be given to the housing management company, with the original kept on file in the municipal housing office.

As part of the annual review process, the housing management company should submit to the municipality an audit of its financial records conducted by an independent, professional accounting firm. The purpose of the audit is to provide assurance that the management company is following standard and acceptable accounting practices and that the financial information being provided to the municipality is complete and correct. The selection of the accounting firm performing the audit should be approved by the municipality.

Before the review, the Housing Office should examine all information that the department has on file for the properties in the housing manager's portfolio. This information should include any reports on the physical and financial status of the buildings, vacancies, delinquencies, and tenants' complaints.

It is generally better to do a management review for individual buildings, rather than for a group of buildings. This is only possible if records are kept on a building-by-building basis. If the review is to be done for a single property, the Housing Office should visit the site and spend a sufficient amount of time walking through it and examining building conditions. If the review is to be for the entire portfolio of a housing manager, however, a group of properties should be chosen by the Housing Office to visit. The sample of buildings should include buildings of different ages, physical condition, and construction type.

While the site visit is important, particularly if the reviews are to be done on a company-by-company basis, it is necessary for the reviewer to spend time at the office of the housing manager. This is because the properties themselves do not have administrative offices, and most, if not all of the properties' records are kept at the office of the housing manager.

The results of the performance reviews should be written up by the Housing Office in a report for the Mayor or the Deputy Mayor responsible for municipal housing. In the case of a negative report, the municipality may decide to take corrective or punitive action against the housing manager, depending on the course of actions permitted by the management contract.

VI.

VII.

CREATING INCENTIVES FOR IMPROVING MANAGEMENT SERVICES

Under the old system of housing management, the state-owned management enterprises had little incentive to control costs or to provide better services. Consequently, large amounts of money were spent on the housing stock each year, but the properties continued to be poorly maintained. The use of private management firms is a first step toward improving this situation. Privatization alone will not be sufficient, however, if the proper environment is not created to encourage better performance and greater efficiency.

This chapter discusses how municipalities can build an environment where good performance by the management companies is encouraged, leading to higher quality of services for the tenants in public housing.

PROMOTING COMPETITION IN MANAGEMENT SERVICES

Many municipalities currently employ only one management company to operate all of their residential properties. If a municipality has a sufficient number of properties, it may wish to consider further dividing the housing stock into segments and hiring additional management companies to manage each segment. One advantage to doing this is that the municipality would automatically obtain more detailed data on its housing stock because more managers would be reporting on a smaller set of buildings.

A second advantage to hiring additional management companies is that it would create a greater sense of competition among the management firms. At present, most municipalities have no alternatives for housing managers other than the housing enterprise that they currently employ. By creating opportunities for more firms to get into the housing management business, the municipality will provide itself (and other owners) with more options for housing managers.

Although there may not be other companies in the municipality that currently have experience with housing management *per se*, this should not be seen as an obstacle to hiring new managers. Experience has shown that many firms who have experience in related areas, such as maintenance services or construction, can make very good housing managers.

The key to selecting a good management company is to have a clear, complete definition of the duties and responsibilities of the housing manager and to use an open, competitive process for evaluating the qualifications of prospective managers. The definition of the housing manager's responsibilities is basically the same as that in the management criteria discussed previously. For evaluating and selecting firms, the municipality should follow the basic steps of a competitive bidding procedure:

- 1) The municipality issues a **request for proposals**, which specifies the types of management services that it is seeking.
- 2) Each prospective management firm submits its **proposal**, that is, a description of their qualifications and any other materials required by the request for proposals.
- 3) The municipality reviews the proposals submitted by management firms. The municipality will probably want to schedule interviews with the firms to obtain more details about their qualifications and competency in different areas.
- 4) The municipality selects one or more firms based on the information provided in the proposals and interviews.
- 5) Legal contracts are executed between the municipality and the management firms.

These steps are explained in more detail in the remainder of this section.

Request for Proposals

The **request for proposals** is a written set of specifications that provides details regarding the management services that the owner is seeking. The use of a written request for proposals creates an objective method for soliciting and analyzing competing bids. It ensures that all prospective contractors understand the services that they must provide and makes it easier to compare the responses, since each bidder provides the same information and answers the same questions.

The request for proposals should be as precise as possible regarding the tasks that the housing manager is expected to perform. If the request for

proposals is very specific, the prospective housing managers will be able to evaluate realistically their ability to meet the municipality's requirements, and the municipality will be able to adequately judge the competency and ability of each of the applicants.

The first step in developing a request for proposals is to decide on the types of services that the municipality wishes the management firm to provide and the tasks that the management firm will be expected to carry out. For example, the municipality may specify that the management firm must keep financial records for the buildings, repair major building systems (heating, electrical, plumbing, ventilation), clean public spaces in the building, and maintain the landscaping of the building site.

Once the management responsibilities have been defined, there are other issues that the municipality must consider:

- What is the schedule for hiring the management company? What should be the deadline for submitting proposals? When will the final selections be made?
- Are there any municipal requirements or certifications that a prospective manager must meet? Must the firm have any licenses or registrations in order to be eligible for consideration? Is there any type of insurance that the firm must carry?
- What skills does the municipality want to emphasize? Are certain skills, experience, or education so important that a prospective manager should not respond unless he meets these criteria?
- Will the management fee be specified in the request for proposals, or will the firms be asked to propose a fee amount? Will the request for proposals indicate an upper limit for the management fee?
- How will the selection process work? Will the municipality require only written proposals? Will there be interviews? Will the manager have to provide a specified number and type of references? If the firm is managing other properties already, will the municipality want to inspect them?
- How will the municipality evaluate the responses? Will all qualifications be considered equally important, or will some qualifications be given more weight than others? Will a rating system be used with points assigned to each criteria?
- Will there be a required format for the proposal? Where and when must the proposals be submitted? How many copies of the proposal must the management company provide?

➤ How will prospective bidders be contacted? Is there an existing list of "pre-qualified" companies who will be notified by mail? Will a general notice be posted at the city hall or in the newspaper?

➤ How will firms receive the request for proposals? Can companies request a copy by mail? Must they pick up copies at a specified time and location? Will the companies have to pay for the request for proposals?

The Housing Office should also include in the request for proposals all of the necessary information about the properties to be managed. This would include a physical description of each property, a summary of its financial condition, the ownership structure of the property, and any other special conditions that might affect the management of the property.

An outline of a typical request for proposals is presented in Annex C. The information in the request for proposals should be presented in a clear and concise manner so that there is no confusion on the part of the bidders. The municipality also wants to state the information in a way that requires the management firms to think about their responses, and not simply repeat information that has already been provided. The goal of the request for proposals is to solicit as much relevant information as possible and to have that information presented in a way that shows whether the bidder has a clear understanding of what the municipality needs.

As part of the distribution of the request for proposals, the municipality may wish to hold a **Pre-Bid Conference**. This is a meeting at which specific questions regarding the request for proposals may be answered and additional information provided by the municipality. A tour and inspection of one or more properties may also be provided at that time (or this may be done later). The municipality may make attendance at the Pre-Bid Conference a requirement for all firms who wish to submit a proposal.

Selection Process

Once the municipality has received all of the proposals, it must begin the process of selecting one or more management firms. In developing a selection process, the goal is to create a fair and equitable opportunity for all eligible bidders to demonstrate their ability to manage the properties. To achieve this goal, a detailed selection process should be set up in advance that clearly explains how the proposals will be judged and how the decision of which firms to hire will be made.

The following items should be considered in formulating selection criteria:

➤ What skills must the bidder display? Are some skills more important than others?

➤ Will the decision be made by a committee? If so, who will be on the committee? How will the decision be reached (consensus, a formal vote, etc.)?

➤ Will there be interviews of all bidders? For the finalists? How will the interviews be conducted? Will there be oral or written questions? Will the bidder be asked to make a presentation? How long will the interview take?

➤ Will references be required as part of the selection process? Written or oral? Who will contact the references? Will the references be asked a predetermined set of questions?

One possibility is to use a "points" system for ranking each of the proposals. A maximum number of points could be assigned to different parts of the proposal, and the committee could decide how many points to award to each candidate. This provides a more objective basis for ranking each proposal, and allows different parts of the proposal to be weighted according to importance. For example, a firm could receive a maximum of 50 points for demonstrating competence in heating system maintenance but only a maximum of 20 points for cleaning services.

An interview can be an important source of information for choosing a contractor. It provides the municipality an opportunity to obtain more details on the manager's proposal. A set of questions should be prepared in advance and a written record kept of the interviews. This will allow an assessment of the selection process should questions arise afterwards.

Regardless of how the final decision is reached, it is important that the selection process be as straightforward and open as possible. This is especially true since public funds are involved. People must have confidence that the process of choosing management companies is fair and honest.

Competitive Bidding for Other Services

The competitive bidding procedure can also be used for other services. For example, management companies can use it to contract with firms for maintaining the elevators, cleaning public spaces, etc. It can also be used to contract with firms for making larger capital repairs.

The procedures would be similar to those described for the management company request for proposals. The specification of work needs to be as precise as possible. For capital repairs, it might be necessary to have someone who is a technical expert write the specification of work, so that it will be clear and complete.

The municipality may want to require the housing manager to issue a request for proposals for all contracted work over a certain amount. This provides a way to ensure that the manager is finding the best quality services at the lowest price. By having an open and fair competition, the owner can also prevent, to some extent, the possibility of the management company awarding a contract to a firm that pays it a bribe, or "kickback."

MANAGEMENT INCENTIVES AND PENALTIES

In business, people are often stimulated to improve their performance if they are given some sort of recognition, award, or other incentive for superior achievement. This can be particularly effective when the recognition is monetary. A system of incentive bonuses can be a practical means of encouraging housing management companies to improve their performance.

Incentive bonuses should be awarded on the basis of performance that the Housing Office can easily and accurately measure. Bonuses should not be given automatically—the achievement of specific goals must be verifiable. If a housing management company says that it is entitled to a bonus, the Housing Office should *verify* that the management company has met all of the requirements for receiving this bonus. This can usually be done by reviewing the financial, maintenance, and other records of the management company.

If an incentive bonus system is developed, it should be simple, clear, and easy to administer. Incentives should only be awarded for *repeated* good performance, otherwise the Housing Office would spend all of its time administering the bonuses. Furthermore, the amount of the bonuses should be substantial enough to entice the housing management companies to perform better, while they should not be so high that they destroy the benefit to the housing stock reaped from the company's improved performance.

Bonuses should not be given for performance that is expected from any good housing manager. For instance, preparing annual operating budgets is an activity that is necessary for proper management of the housing. Therefore, the housing manager should not receive any bonus for doing this task. Only *exceptional* performance should be recognized with bonuses.

Figures 11 and 12 give suggestions for incentive bonuses and penalties that the municipality could implement. It is not recommended that all of these bonuses and penalties be used. Only a limited number of incentives should be selected—ones that the municipality feels would be practical to implement and that would lead to a noticeable improvement in management services. Again, it is important that the Housing Office not be over-

burdened with the task of administering incentives and penalties for the housing manager.

The following is an example of how bonuses can be used to improve the collection of rents and to obtain more timely information about tenant nonpayment.

Figure 0—Examples of Incentive Rewards for the Housing Manager

1. If total tenant delinquencies are less than 5% of the gross potential rent and other charges each month for a consecutive three month period, then the management company could be entitled to receive a bonus (such as 3 Sk per unit) in addition to the management fee.
2. If all units that were vacated during a consecutive three month period were prepared for occupancy within twenty-one days after becoming vacant, the management company could receive a bonus (such as 3 Sk per unit).
3. If the housing management company establishes monthly reporting of income and expenses on a **per building basis**, the company could receive a one-time bonus (such as 10 Sk per unit) after the third consecutive month in which the new reports are submitted to the asset manager.
4. It would be beneficial to allow the management company to maximize the apartment buildings' rent revenue. One way to do this is to allow the management company to develop unused space in a building and rent the space to a commercial tenant. If a management company is able to rent a new commercial space in a building, it should receive a percentage of the gross annual rent or some kind of commission as a bonus.

Using Bonuses to Improve Rent Collection

One of the most important responsibilities of the housing manager is collecting rent and other charges from the tenants. Currently, most tenants in municipal housing pay these charges through SIPO, a state enterprise associated with the post office. Tenants are able to pay their rent, utility, and service charges at their post office, and these payments are forwarded to the management companies through SIPO. SIPO charges a per transaction fee to the housing manager for providing this service.

While SIPO affords some convenience for both the tenants and the housing manager, its use should be discouraged because of the long delays in transferring funds and reporting information. It normally takes three months from the time that the tenant pays her bill for the management company to

receive the money from SIPO. This delay should be considered unacceptable. If the money is in the hands of SIPO then it is not available for making repairs, paying bills, or earning interest in the bank.

Figure 0—Examples of Penalties for the Housing Manager

1. During any month in which aggregate tenant delinquencies for the housing management company's portfolio exceed 10 percent, a certain percentage of the management fee (or a per unit amount) for that month could be withheld by the municipality.
2. During any month in which any unit is vacant for more than six weeks because the work needed to prepare it for occupancy has not been completed (unless there are extraneous conditions such as lack of funds available for renovation or substantial repairs) a certain amount could be deducted from the management fee.
3. If the housing management company violates the management contract in any way, the municipality may terminate the contract. If the infraction is not deemed serious enough for contract termination, the asset manager could impose a fine to be deducted from the company's management fee during the month in which the infraction took place.
4. During any calendar year, if the housing management company submits any required reports beyond the due dates on more than four occasions, a penalty could be deducted from the management fee for January of the new year.

Another example of SIPO's inefficiency is the amount of time it takes to report whether a tenant has paid his rent. If a tenant does not pay his rent and other charges by the due date, he is sent a reminder by SIPO. If payment is still not received, then this is reported to the manager *three months* later, a very long time to wait for such critical information. The municipality and the manager should have the most up-to-date information on nonpayment as possible. The goal should be to have a comprehensive list of delinquent tenants within two weeks of the payment due date.

To provide an incentive to move away from using SIPO, the municipality could give the management company a bonus on top of its regular management fee if it collects the rents from the tenants directly. The bonus should only be awarded if the management company can provide accurate information on nonpayment by a specified number of days after the payment due date. In other words, the management company must prove that it is doing a *better* job than SIPO. To set the amount of the bonus, the municipality must estimate how much it would cost the housing manager to collect rents directly, which would include such costs as hiring additional employees and

mailing bills to the tenants. The bonus should be sufficient to offset these costs, so that the managers will have an incentive to provide this service.¹³

¹³An alternative solution to the problem of poor rent collection would be to interest local banks in collecting rents and making payments. The municipality could solicit competing proposals from different banks on how much they would charge for providing this service and how quickly they would be able to transfer funds and report nonpayment.

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VIII.

IX.

BUILDING INSPECTION FORM

BUILDING INSPECTION FORM

_islo _ast_____ _islo Popisne_____

_islo Orienta_ni _____

Total Number of Units in Building _____

Number of Units Owned by City _____

Number of Square Meters in Building _____

Number of Floors (including entryway) _____

Is there a basement? _____ An attic? _____

Type of Construction _____ Heating _____

Year of Construction _____ Year of Most Recent Renovation _____

UTILITIES

Master
Metered

Individually
Metered

Electricity

Gas

Water

Heating Source

Survey Conducted By: _____

Signature(s) _____

Date: _____

CONDITION

	Excellent	Good	Fair	Below Average	Poor	N/A
--	-----------	------	------	------------------	------	-----

Exterior (front)

Masonry

Brick

Stucco

Siding

Mansard

Flashing

Parapets

Paint

Trim

Balconies

Window Frames

Window Sills

Windows

Entry Door

Locks

Electronic Entry System

Sidewalks

Asphalt

Steps to Building

Handrails

Exterior Lighting

Comments: _____

	Excellent	Good	Fair	Below Average	Poor	N/A
<i>Exterior (Sides and Back of Building)</i>						
Masonry						
Brick						
Stucco						
Siding						
Mansard						
Paint						
Flashing						
Parapets						
Trim						
Balconies						
Window Frames						
Window Sills						
Windows						
Doors						
Stairs						
Handrails						
Green Areas						
Concrete						
Asphalt						

Comments: _____

	Excellent	Good	Fair	Below Average	Poor	N/A
<i>Roof</i>						
Gutters						
Downspouts						
Roof material						
Drainage						
Lightning Rods						
Antennae						
Chimneys						

Access to Roof

Comments: _____

	Excellent	Good	Fair	Below Average	Poor	N/A
<i>Entry Way</i>						
Mailboxes						
Walls						
Floor						
Ceiling						
Lighting						
Elevator Door						
Elevator Interior						
Fire Equipment						
Comments:						

	Excellent	Good	Fair	Below Average	Poor	N/A
<i>Halls and Stairways</i>						
Walls						
Floor						
Ceiling						
Lighting						
Elevator Entrance						
Stairs						
Handrails						
Equipment Boxes						
Fire Equipment						
Storage Areas						
Unit Entry Doors						
Doorbells						
Locks						
Windows						
Window Frames						
Window Sills						
Skylights						
Comments:						

	Excellent	Good	Fair	Below Average	Poor	N/A
<i>Basement</i>						
Walls						
Ceilings						
Floor						
Lighting						
Storage Rooms						
Meters: Electric						
Gas						
Water						
Heating Equipment						
Elevator Equipment						
Water Lines						
Gas Lines						
Sewer Lines						
Garbage Receptacles						
Drainage						
Fire Equipment						

Comments: _____

	Excellent	Good	Fair	Below Average	Poor	N/A
<i>Attic</i>						
Rafters						
Joists						
Support Columns						
Walls						
Floor						
Lighting						
Roof Access						
Stairways						
Handrails						
Windows						
Ventilation						
Fire Equipment						

Comments: _____

Miscellaneous (further explanation of above items, or items not included above)

X.

XI.

MANAGEMENT REVIEW

Outline of Review

The following is an outline of the areas which should be covered by a review. Some of these items may be more relevant than others. Particularly because housing managers does not have the financial resources to maintain the building exteriors and because in many instances, this is not part of their scope of work, housing managers cannot be judged too harshly with respect to the building appearance.

A. Maintenance and S ecurity

1. General physical condition of buildings
2. Work prioritization
3. Preventive maintenance
4. Unit inspections
5. Vacant unit preparation
6. Procurement and supply practices
7. Energy conservation

B. Financial Management

8. Accounting and bookkeeping
9. Budget development and management
10. Cash controls
11. Cost controls
12. Submission of reports
13. Rent collection
14. Fee collection practices
15. Accounts receivable/payable

- C. Record Keeping
 - 16. Tenant files
 - 17. Unit files
 - 18. Maintenance records
 - 19. Renovation records
- D. General Management Practices
 - 20. Organization and supervision of work
 - 21. Staffing and personnel
 - 22. Operating procedures (manuals)
 - 23. Training
 - 24. Office administration
 - 25. Management plan

Each of the items listed above should be rated. The ratings should be assigned based on the reviewer's investigation of each item (sample investigative questions are provided below). Different types of rating systems can be used. One option is to use a point system which awards ratings of 1 through 5, with 1 being the lowest and 5 the highest. Another option is to assign each category subjective ratings, A to note that the item is in acceptable condition, C to denote that corrective action to be taken place within one year, and I for immediate action needed. These are merely two suggestions, but any other logical rating system can be used. In creating such a system, it is important that it can be applied as objectively as possible.

Sample Review Questions

- Part A.1. - Are grounds and landscaping in acceptable condition?
- Are buildings generally free of broken windows, broken light fixtures or damaged exterior doors?
 - Are common areas (hallways, stairways, elevators, garbage areas) clean?
 - Are the buildings generally free of fire/safety/health hazards?
- A.2. - Are employees provided with written schedules of routine work to be performed?

- Are emergency items given acted upon quickly?
 - Is emergency maintenance service available after regular working hours?
 - Does management have a system for receiving, assigning, completing, and billing work requests?
- A.3. - Does the company have a schedule for preventive maintenance?
- Are pest control services provided to the buildings?
 - Are sewer lines, roof gutters, and downspouts cleaned periodically?
- A.4. - Are unit interiors ever inspected?
- Are results of the inspections recorded?
 - Is action taken to remedy problems within the units?
 - Are vacant units inspected after the tenant moves out?
 - Is effort made to get the tenant to reimburse management for damage to the unit?
- A.5. - Does management have a system to monitor timely preparation of vacant units?
- Average preparation time is _____ days.
 - Number of vacant units needing substantial rehabilitation.
- _____
- A.6. - Does management maintain a list or file of vendors who sell services to the buildings?
- Does management shop around for competitive prices?
 - Does management keep copies of service contracts on file?
 - Is there evidence that management inspects the work of contractors before authorizing payment? Does management pursue corrections as needed?
- A.7. - Does management attempt to reduce energy consumption in the buildings? In what way(s)?
- Part B.8. - Does the management company use logical, consistent, and comprehensible accounting and bookkeeping systems?
- B.9. - Does the management company prepare operating budgets for the buildings?

- Does the management company adhere to the budget or monitor its performance with respect to the budget?

- Does management know if it is over or under budget?

B.10. - Does management take steps to ensure that cash is controlled?

B.11. - Does management solicit bids in order to obtain materials/supplies/services.

- Does management periodically review operating expenses to ensure that the buildings are being charged the lowest possible rates?

B.12. - Does management submit financial reports to the municipality on time?

B.13. - Is the management company involved in the collection of rents and other charges? In what way is the company involved in this activity?

- Does the management company prepare delinquency reports on a periodic basis?

B.15. - Does the management company do anything about pursuing delinquent payers?

- Does the management company pay building-related bills in a timely fashion?

Part C.16. - Does the management company keep records on the tenants, including rental agreements, correspondence, and any other pertinent information?

C.17- - Does management keep information on individual
19. units, such as maintenance and renovation records?

Part D.20. - Is there evidence that management has a plan for dealing with the buildings, in terms of maintenance, staffing, etc.?

- Does management regularly make site visits?

- Does management adequately supervise its staff?

- Are staff clearly aware of their job duties?

D.21. - Does staffing level seem appropriate to the workload?

- Are the staff's skills appropriate for the tasks required?

D.22. - Does management have specific operating procedures? Are any of these in written form?

- If written procedures exist, are these distributed, and do staff refer to them?

D.23. - Does management have an ongoing training program for its staff?

- What, if any, staff training is provided?

D.24. - Do the tenants know where the management office is?

- Do they know management's office hours?

- Does the management office appear to be well-organized?

- Are tenants aware of emergency maintenance procedures?

- How much contact is there between management and the tenants?

D.25. - Does management have a written building management plan?

- What types of items does this plan address?

- Is there evidence that management attempts to meet the objectives set forth in the plan?

XII.

XIII.

REQUEST FOR PROPOSALS

SAMPLE OUTLINE OF A REQUEST FOR PROPOSALS

I. Introduction: The introduction states the purpose of the Request for Proposals, along with the following details:

- Due date
- Pre-bid conference (if any)
- Procedures for inspecting the property prior to proposal submission
- Format for submission (how many copies, where proposals should be submitted, etc.)

II. Scope of Work: This section contains a detailed description of all services that the management company would be expected to provide. For example:

- Maintenance of all major building systems
- Cleaning and maintenance of public spaces and building grounds
- Repairs of certain items in tenants' apartments
- Collection of rents and other charges from tenants; paying utility bills
- Marketing and arranging leases for commercial spaces
- Financial record keeping
- Preparation of monthly reports for the owner

III. Description of the Property: This section should include a brief description of each property to be managed:

- Location of buildings
- Building types
- Number of residential units
- Number of commercial units
- Physical systems (type of heating, etc.)

➤ Unique conditions related to financial structure, ownership, physical conditions, or residential or commercial population. (For example, is there a need for substantial capital investment? Is it the intention of the owner to convert the property to a condominium? Are there public spaces being vacated for commercial use?)

IV. Selection Process: Description of the method for selecting the management firms:

- Criteria for evaluation and their relative importance
- Legal requirements to be met by the bidder (insurance, licenses, certifications)
- Interviewing requirements
- Requirements for references
- Bidders who will be given priority based on their type of organization

V. Contractual Conditions: This section explains the basic conditions of the management contract, including:

- Length of contract
- Structure of management fee (flat fee per unit or percentage of rent revenue)
- Other contractual conditions that the management company should consider when responding to the Request for Proposals

VI. Technical Proposal: This section outlines what should be included in the management company's proposal. It states what management capabilities the bidder must possess and asks the bidder to demonstrate his skills in these areas. Requests for the following types of information may be included:

A. Experience and Qualifications

The bidder should be asked to state how long he has been providing similar services and what it is about his experience that makes him the best candidate to manage the property. He should also be asked to indicate what makes him uniquely qualified to serve as the manager of the properties. Typically, the bidder would be expected to provide the following information in this section:

- The length of time that the management company has been providing relevant services to other clients
- The company's professional credentials
- The types of legal and insurance requirements the company has

- Demonstration that the company can assume the responsibilities within the required time frame

- Indication that the company has staff available who are qualified to manage the property

B. Management Approach

This part asks the bidder to explain in general terms how she approaches the management of property and how this approach will serve the needs of the specific properties described in the Request for Proposals. The owner would expect the bidder to include:

- Organizational information regarding how supervision is handled within the company and how staff are allocated

- General listing of management services with a brief overview of how they are approached by the bidder

C. Management Services

This section asks the bidder to provide details regarding approach, procedures, and specific services that the company will provide. Typically, the bidder would be expected to provide the following:

1. Financial Services

- How bank accounts are handled
- Procedures for rent collection (where rents are paid, what is done if a tenant does not pay)
- Procedures for paying bills (who does it, how is the process monitored, what records are kept)
- Method for developing budgets
- Name and qualifications of staff responsible for planning capital investment
- Description of record keeping systems

2. Administrative Services

- Operating procedures for company (office hours, procedures for tenants to register a complaint)
- Job descriptions and responsibilities of administrative staff
- Types of reports provided to the owner (resident lists, copies of correspondence, financial reports, repair information, etc.)

leases

- Method of monitoring and enforcing building rules and

3. *Maintenance Services*

- Procedures for handling emergencies
 - Plan for routine and preventive maintenance
 - Experience and involvement in energy conservation
 - Description of work order system used by company
 - Procedures for soliciting bids and selecting vendors and
- contractors
- Property inspection schedules and procedures
 - Inventory control procedures

As part of this section, the owner may request that the bidder provide sample copies of financial, administrative, and maintenance reports.

D. Staffing

The bidder should provide specific information regarding how the management company would allocate staff for the properties (how many, how much time, job descriptions)

E. References

The owner should request names of relevant references. This should include owners of any other properties that the company manages.

F. Cost Proposal

The bidder should indicate how much the management fee will be and what services or staff are included as part of that fee.

